

# New York, New Haven & Hartford Railroad Co.

---

LETTER FROM  
THE INTERSTATE COMMERCE COMMISSION

TRANSMITTING

IN RESPONSE TO A SENATE RESOLUTION  
OF FEBRUARY 7, 1914, A REPORT CON-  
CERNING THE FINANCIAL TRANSACTIONS  
OF THE NEW YORK, NEW HAVEN &  
HARTFORD RAILROAD CO.



JULY 15, 1914.—Ordered to be printed

WASHINGTON  
GOVERNMENT PRINTING OFFICE

1914

**SUBMITTED BY MR. NORRIS.**

IN THE SENATE OF THE UNITED STATES,

*July 15, 1914.*

*Ordered,* That 10,000 copies of the report of the Interstate Commerce Commission, submitted to the Senate on July 13, 1914, relative to the financial transactions of the New York, New Haven & Hartford Railroad Company, be printed for the use of the Senate document room.

Attest:

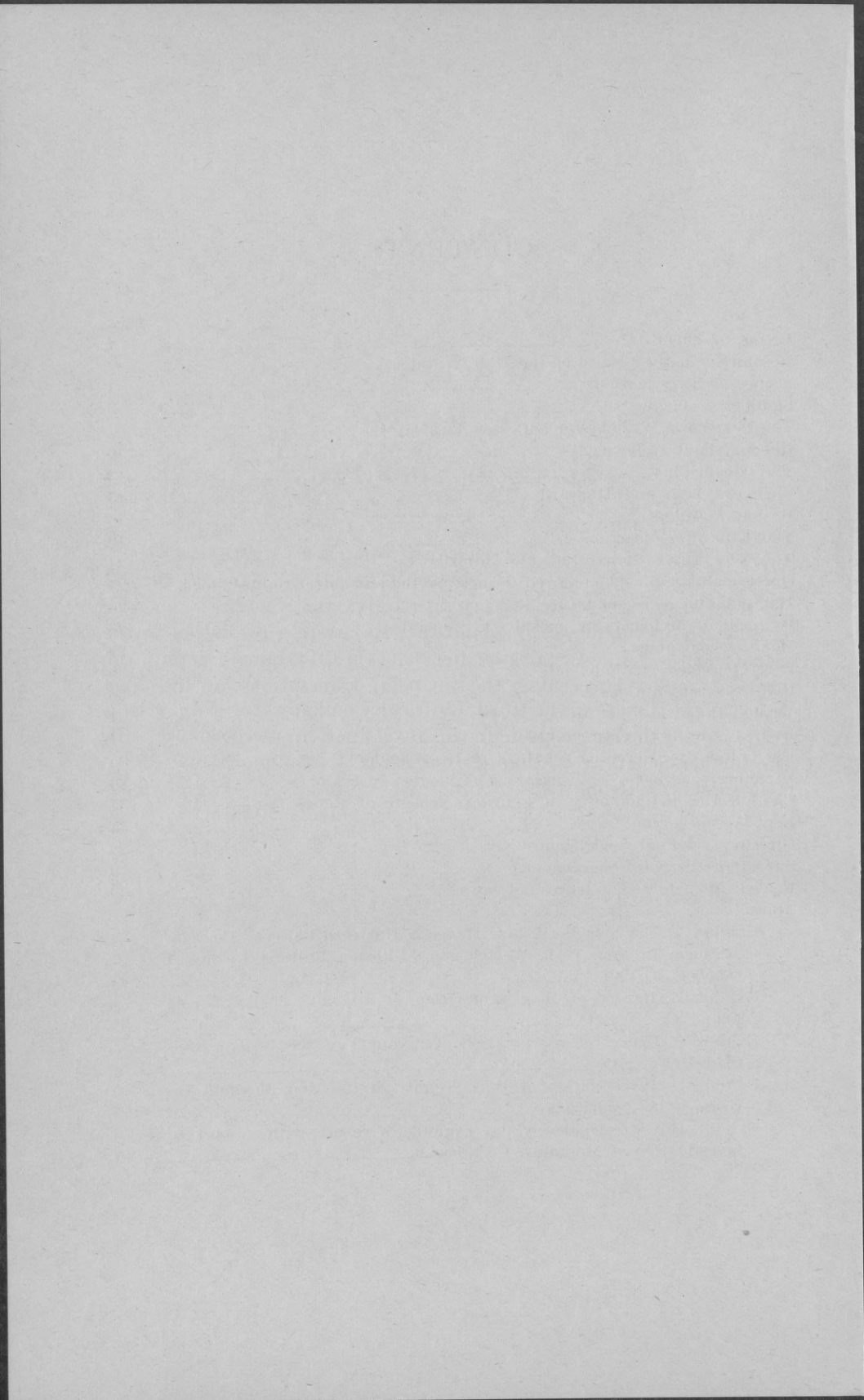
JAMES M. BAKER,  
*Secretary.*



## CONTENTS.

---

|   | Page. |
|---|-------|
| Letter of submittal.....  | v     |
| Resolution in the Senate of the United States.....  | vi    |
| Scope of investigation.....   | 1     |
| Significant incidents.....  | 3     |
| The New York, Westchester & Boston Railway Co.....  | 4     |
| Rhode Island trolleys.....  | 10    |
| The steamships.....   | 12    |
| Steamers Yale and Harvard.....  | 13    |
| Boston & Maine.....   | 16    |
| The Billard transactions.....   | 19    |
| The New England Investment & Security Co.....   | 24    |
| Questionable methods employed to increase the amount of capital stock.....  | 26    |
| Manipulation of accounts.....   | 26    |
| Payment of dividends by subsidiary companies.....   | 27    |
| Dummy companies.....  | 29    |
| Large purchases without bids.....   | 30    |
| Political contributions.....  | 30    |
| Waste—Impairment of value—Losses.....   | 31    |
| Evil of interlocking directorates.....  | 34    |
| Funds to be recovered on behalf of the stockholders.....  | 35    |
| Directors consciously transgressing antimonopoly laws.....  | 36    |
| The question of immunity in securing exposure of abuses.....  | 37    |
| New Haven corrupt.....  | 37    |
| Directors criminally negligent.....   | 38    |
| Subsidiary corporations condemned.....  | 39    |
| Remedy in public conscience and laws.....   | 39    |
| Appendix:   |       |
| Exhibit A. The New York, New Haven & Hartford Railroad Co.'s investment in New York, Westchester & Boston Railway Co. as of October 31, 1907..... | 41    |
| Exhibit B. Report of the examination of accounts of the Rhode Island Co.....  | 54    |
| Exhibit C. Report of examination of accounts of the Boston Railroad Holding Co.....   | 68    |
| Exhibit D. Investigation of the accounts of the New England Investment & Security Co.....   | 77    |
| Exhibit E. Correspondence and examiner's report with respect to investigation of Morgan & Co.'s books.....  | 97    |



## LETTER OF SUBMITTAL.

---

INTERSTATE COMMERCE COMMISSION,  
*Washington, D. C., July 11, 1914.*

TO THE PRESIDENT OF THE SENATE OF THE UNITED STATES.

SIR: I have the honor to submit in response to a resolution in the Senate of the United States on February 7, 1914, quoted herein, the inclosed report concerning the financial transactions of the New York, New Haven & Hartford Railroad Company, together with a transcript of the record made in this investigation in accordance with the further Senate resolution of June 24, 1914, also quoted.

Respectfully submitted.

JAMES S. HARLAN,  
*Chairman.*

RESOLUTION IN THE SENATE OF THE UNITED STATES, FEBRUARY 7, 1914.

*Resolved*, That the Interstate Commerce Commission be requested to make public the facts in its possession concerning the financial transactions of the New York, New Haven & Hartford Railroad Company, and so far as it may be necessary to get additional information to thoroughly cover the subject, to reopen the examination of the affairs of that company and make a further investigation of its financial transactions with a view to ascertaining:

First. What became of the funds of said company invested in the various enterprises and corporations mentioned in the opinion of the Interstate Commerce Commission, numbered twenty-three hundred and eighty-four, case numbered forty-eight hundred and forty-five, entitled "The New England investigation in the matter of rates, classifications, regulations, and practices of carriers," submitted May twentieth, nineteen hundred and thirteen.

Second. Whether the person or persons authorizing such investment of the funds of said company and the person or persons receiving the benefit thereof are liable to punishment under existing laws.

Third. Whether under existing law such funds so invested can be recovered on behalf of the stockholders of said company.

Fourth. What legislation, if any, is necessary to prevent the recurrence of similar transactions.

---

RESOLUTION IN THE SENATE OF THE UNITED STATES, JUNE 24, 1914.

*Resolved*, That the evidence taken by the Interstate Commerce Commission, pursuant to S. Res. 260, concerning the financial transactions of the New York, New Haven and Hartford Railroad Company, together with the report of the Interstate Commerce Commission thereon, be printed as a Senate document.

# INTERSTATE COMMERCE COMMISSION.

No. 6569.

## IN RE FINANCIAL TRANSACTIONS OF THE NEW YORK, NEW HAVEN & HARTFORD RAILROAD COMPANY.

REPORT OF THE COMMISSION TO THE SENATE OF THE UNITED STATES.

By THE COMMISSION :

The Commission has the honor to submit the following report in compliance with the resolution of the Senate dated February 7, 1914:

### SCOPE OF THE INVESTIGATION.

In the former investigation, known as the *New England Investigation*, 27 I. C. C. 560, the Commission had access only to the books of accounts of The New York, New Haven & Hartford Railroad Company, The Consolidated Railway Company, The Connecticut Company, and The Rhode Island Company. No minute books, stock books, or correspondence files of these companies were obtained in their entirety, but only such reference to same was available as was specifically requested. The financial affairs of these companies constituted only one branch of this investigation. In the present proceeding the Commission has inquired into the financial affairs of the entire New Haven system.

Since the former investigation there has been a change in the executive officers of the New Haven system. In justice to the present management it is but fair to say that its chief executive officer and his special counsel have cooperated with the Commission and rendered it substantial assistance throughout this investigation.

Public hearings were held extending over a period of 60 days of almost continuous session. Witnesses in a position to have knowledge of the transactions under scrutiny were examined. In the search for truth the Commission had to overcome many obstacles, such as the burning of books, letters, and documents and the obstinacy of witnesses who declined to testify until criminal proceedings were begun for their refusal to answer questions. The New Haven system has more than 300 subsidiary corporations, in a web of entangling alliances with each other, many of which were seemingly planned, created, and manipulated by lawyers expressly retained for the purpose of concealment or deception. Ordinarily in investiga-



tions of this character evidence is easily adduced by placing the witnesses upon the stand, but in this investigation the witnesses other than the accountants for the Commission were in the main hostile, and with few exceptions their testimony was unwillingly given.

The result of our research into the financial workings of the former management of the New Haven system has been to disclose one of the most glaring instances of maladministration revealed in all the history of American railroading. In the course of the investigation many instances were uncovered of violation of the laws of different States. As these were not understood to be pertinent to our inquiry under the Senate resolution we did not follow them into their details. As pointing to violations of State laws, we have turned over the evidence concerning local occurrences in New York City to the district attorney for the proper district, and the testimony relating to irregularities in Massachusetts and Rhode Island have been laid before the proper authorities of those States. The Commission has also furnished the Department of Justice with a complete record of the testimony.

The difficulties under which this railroad system has labored in the past are internal and wholly due to its own mismanagement. Its troubles have not arisen because of regulation by governmental authority. Its greatest losses and most costly blunders were made in attempting to circumvent governmental regulation and to extend its domination beyond the limits fixed by law.

The subject matter of this inquiry relates to the financial operation of a railroad system which, on June 30, 1903, had a total capitalization of approximately \$93,000,000, of which \$79,000,000 was stock and \$14,000,000 bonds. In the ten years from June 30, 1903, this capitalization was increased from \$93,000,000 to \$417,000,000, exclusive of stock premiums, or an increase of \$324,000,000. Of this increase approximately \$120,000,000 was devoted to its railroad property and was expended for betterments and equipment. This leaves the sum of \$204,000,000, which was expended for operations outside of its railroad sphere. Through the expenditure of this sum this railroad system has practically monopolized the freight and passenger business in five of the States of the Union. It has acquired a monopoly of competing steamship lines and trolley systems in the section which it serves. The financial operations necessary for these acquisitions, and the losses which they have entailed, have been skillfully concealed by the juggling of money and securities from one subsidiary corporation to another.

## SIGNIFICANT INCIDENTS.

Marked features and significant incidents in the loose, extravagant, and improvident administration of the finances of the New Haven as shown in this investigation are the Boston & Maine despoilment; the iniquity of the Westchester acquisition; the double price paid for the Rhode Island trolleys; the recklessness in the purchase of Connecticut and Massachusetts trolleys at prices exorbitantly in excess of their market value; the unwarranted expenditure of large amounts in "educating public opinion"; the disposition, without knowledge of the directors, of hundreds of thousands of dollars for influencing public sentiment; the habitual payment of unitemized vouchers without any clear specification of details; the confusing inter-relation of the principal company and its subsidiaries and consequent complication of accounts; the practice of financial legerdemain in issuing large blocks of New Haven stock for notes of the New England Navigation Company, and manipulating these securities back and forth; fictitious sales of New Haven stock to friendly parties with the design of boosting the stock and unloading on the public at the higher "market price"; the unlawful diversion of corporate funds to political organizations; the scattering of retainers to attorneys of five States, who rendered no itemized bills for services and who conducted no litigation to which the railroad was a party; extensive use of a paid lobby in matters as to which the directors claim to have no information; the attempt to control utterances of the press by subsidizing reporters; payment of money and the profligate issue of free passes to legislators and their friends; the investment of \$400,000 in securities of a New England newspaper; the regular employment of political bosses in Rhode Island and other States, not for the purpose of having them perform any service but to prevent them, as Mr. Mellen expressed it, from "becoming active on the other side"; the retention by John L. Billard of more than \$2,700,000 in a transaction in which he represented the New Haven and into which he invested not a dollar; the inability of Oakleigh Thorne to account for \$1,032,000 of the funds of the New Haven intrusted to him in carrying out the Westchester proposition; the story of Mr. Mellen as to the distribution of \$1,200,000 for corrupt purposes in bringing about amendments of the Westchester and Port Chester franchises; the domination of all the affairs of this railroad by Mr. Morgan and Mr. Mellen and the absolute subordination of other members of the board of directors to the will of these two; the unwarranted increase of the New Haven liabilities from \$93,000,000 in 1903 to \$417,000,000 in 1913; the increase in floating notes from nothing in 1903 to approximately \$40,000,000 in 1913; the indefensible standard of business ethics and the absence of finan-

cial acumen displayed by eminent financiers in directing the destinies of this railroad in its attempt to establish a monopoly of the transportation of New England. A combination of all these has resulted in the present deplorable situation in which the affairs of this railroad are involved.

THE NEW YORK, WESTCHESTER & BOSTON RAILWAY COMPANY.

The Westchester is a story of the profligate waste of corporate funds. The road was not necessary as a part of the New Haven system. It parallels other lines already owned by the New Haven and traverses territory which the New Haven already served. That it was recognized as unnecessary by the New Haven itself at its inception is evidenced by the fact that the New Haven sought an injunction to restrain the construction of this road on the specific ground that it was not in answer to any public necessity and paralleled its already existing line.

The enormous sum of \$36,434,173.25 was expended for a road only 18.03 miles in extent, which is being operated at an annual loss of approximately \$1,250,000, and which will have to increase its earnings four and one-half fold before it can pay its operating expenses and fixed charges. It is inconceivable that this enterprise could have been entered into by the New Haven as a result of the mandates of good judgment and proper railroading.

The Westchester acquisition was planned and executed by a special committee of the board, consisting of Directors Morgan, Rockefeller, and Miller, with President Mellen as chairman. The vote appointing this committee "on proposed competition between the Connecticut State Line and Harlem River, with power," does not disclose an intention to authorize the buying of charters and promotion securities and the building of a new railroad, much less one at a cost of \$36,000,000. It is ambiguous and was evidently intended to conceal a secret purpose. The full board was not taken into the confidence of those directors who wanted these securities purchased, and no report was ever made by this committee placing the situation as they found it before the board.

The first information the board had concerning the extravagant acquisition of Westchester and Portchester securities was on November 8, 1907, when this committee made its only report. It was then learned that \$11,155,000 had been expended in obtaining control of these two insolvent promotion schemes, and that this expenditure carried with it an obligation to construct two railroads, under franchises of doubtful validity, paralleling the existing line of the New Haven.

The committee had kept minutes of its meetings, which were filed with its report, but these show little beyond the authorizations to the president of the New Haven to deposit large amounts from time to time with J. P. Morgan & Company in an account which appeared on the books of that banking firm as "Special account No. 2." The committee made a contract with Oakleigh Thorne and Marsden J. Perry, both presidents of banks which were large creditors of the companies whose securities were to be acquired. The contract authorized and required Thorne and Perry to purchase for the New Haven 66 per cent of the stock of the several companies, and when this was done they were to construct the railroad. The contract is remarkable in that no limit is placed on the amount that might be paid for the securities or expended in building the road, but these parties were to receive, as commission for their services,  $7\frac{1}{2}$  per cent of the amount expended.

There is no record that this committee ever required from these parties an itemized statement of the disbursements they made of the funds advanced from "Special account No. 2"; nor was any such statement ever rendered. No vouchers were taken. Special account No. 2 on the books of J. P. Morgan & Company shows nothing more than the lump sums received from the New Haven and the disbursement of the same to Thorne and later to the Millbrook Company on notes of the respective payees. It appeared during the progress of this investigation that the personal records of Thorne which might have shown the detail of these disbursements had been burned by him in January, 1912.

In a letter of October 30, 1906, to Mr. C. S. Mellen from the attorney, Francis Lynde Stetson, who was representing all the parties in the deal, namely, J. P. Morgan & Company, the Millbrook Company, Perry and Thorne, and the New York, New Haven & Hartford Railroad Company, there is the following language which is significant as to the course the committee was pursuing:

Referring to the conversation this morning between yourself, Mr. Thorne, and myself, it has occurred to me that it is possible that Mr. Thorne's purchases and even his payments may have to begin before he shall have ascertained the validity of the two principal charters which he is to acquire, and that in the event of the development subsequently of their invalidity it might be that the money spent would be money lost.

The report of this committee, however, was unanimously "approved, ratified, and confirmed" at the meeting of the board of November 8, 1907, at which the following directors were present: Mellen, Rockefeller, Morgan, Milner, Thayer, Brooker, Brush, Warner, Cheney, Miller, Skinner, Barney, Taft, Wittemore, Elton, Hemingway, Robertson, Robbins, and Parker.

After this meeting of the board at which this undetailed report was ratified, Mr. Mellen went to see Mr. Morgan, and requested



more information as to the expenditure of the amounts. According to Mr. Mellen's evidence, Mr. Morgan asked him if he knew who wrote the report, and upon Mr. Mellen's reply, "Yes; Mr. Stetson wrote it," Mr. Morgan asked him, "Do you think you know more than Stetson?" Mr. Mellen admitted he did not, and apparently acquiesced, but took the precaution to write upon the back of his report, while still smarting under the humiliation of the interview with Mr. Morgan, the following words:

The trouble with this is there is nothing to show who got the money for the truck turned over. I don't like the looks of it, and I don't see why the matter should not be made plain. If I had the stock and sold it, I should expect others would state they bought it of me; but that don't seem to have been the disposition here. I never have known the first thing about who originally held the securities, what they were sold for; and no one has thought I was entitled to know. Perhaps I am not. I would feel better if there were at least a disposition to let me know something more than appears in the record.

(Signed) C. S. M.

11-9-1907.

The New Haven had now acquired two franchises with routes parallel to each other and its own line at a distance of only a few hundred yards apart. Some money had been spent on each route by the promoters, as required by their franchises, in acquiring real estate, surveying, and minor construction. The franchise for the route for which the larger sum had been expended, the Westchester, was under attack in the courts. Only \$281,860.64 had been spent on the Port Chester route, and a proceeding had been instituted against this franchise, because the construction work had not progressed as required. So the validity of both franchises was beclouded. An application had been made to the proper authorities to permit the consolidation of the two projects and the construction of one road, but this was tied up in the courts by injunction proceedings in which an appeal had been taken from an order granting the injunction.

With all this conflicting litigation pending, matters were necessarily in a most unsatisfactory state and at a tangled standstill. After all the large expenditures which this committee had made in acquiring the stocks of these companies there was still outstanding 34,053½ shares of the stock of the New York, Westchester & Boston Railroad Company, which proved to be the instrument of delivery. According to the testimony of Mr. Mellen, the deliverer appeared in the person of the late Thomas J. Byrnes, at one time an inspector of police in New York City.

The solution of the difficulties was the further expenditure of \$1,524,072.77. This was artfully arranged by having the New Haven on June 15, 1908, transfer to its subsidiary, the New England Navigation Company, 8,000 shares of its stock at \$150 per share, which the Navigation Company in turn transferred to Charles S. Mellen,



the president of both corporations, who conducted the negotiations. On March 5, 1909, an additional 1,495 shares of New Haven stock at \$158 per share was in like manner placed in Mr. Mellen's possession, and certain sums of money were also advanced to him from time to time.

There were just 13 things that had to be done, according to Mr. Mellen, to get the Westchester out of its franchise difficulties, and it is significant that all amendments to the franchises were obtained, and the sequence was that the New Haven, in addition to these things, received 30,431 of the 34,053½ outstanding shares of the New York, Westchester & Boston Railroad Company stock, which Mr. Mellen testified was not worth 10 cents a pound. The testimony is somewhat occult, but the character of the transaction is no less certain. This money was used for corrupt purposes and the improper expenditures covered up by the transfer to the New Haven of these worthless securities.

In explaining how these negotiations were conducted, Mr. Mellen testified that it was intended that one share of New Haven stock should be exchanged for three shares of Westchester stock. When the New Haven stock was not immediately at hand he issued to the messenger who brought Westchester stock a duebill which was in terms an order on himself to pay on demand to bearer the specified number of shares of New Haven stock or its equivalent in cash at \$150 per share, with accrued dividends. Many of these duebills were not presented until Mr. Mellen's connection with the New Haven was severed, and five of them, aggregating \$50,000 approximately, are still outstanding. During the time the duebills were outstanding Mr. Mellen collected the dividends on the New Haven stock which they represented, and at each dividend period unknown messengers would appear in his office at the Grand Central Station in New York City and demand these dividends, which Mr. Mellen would then pay with his personal checks, so drawn that the identity of the persons cashing them could not be ascertained. It seems very strange that Mr. Mellen was not able to identify with any particularity anyone with whom he had these transactions except the late Thomas J. Byrnes.

No comment is necessary to make clear to the mind the corrupt and unlawful nature of this transaction, and it would seem that the amount illegally expended could be recovered from Mr. Mellen and the directors who authorized it.

Almost coincident with the above transaction there was a further expenditure of \$1,135,935.41 made to settle a suit brought by one Gotshall, a contractor, against Thorne and Perry, which the New Haven paid under the contract which this special committee had

made with the parties. This further amount must also be charged against the Westchester acquisition.

One of the provisions of the contract with Thorne and Perry permitted the New Haven to rescind, in which event the damage to these parties was to be arbitrated by J. P. Morgan & Company. The contract was rescinded, and Thorne and Perry claimed \$500,000 as their damages. The attorney, Francis Lynde Stetson, represented the New Haven in the settlement and incidentally the matter was never arbitrated by J. P. Morgan & Company, but the final settlement, under the terms of which the New Haven paid Perry and Thorne \$275,000, was agreed upon by the attorneys of the contending parties. This made a total of \$1,060,000 which Perry and Thorne personally received. At the time terms of settlement were being discussed L. S. Miller, president of the Millbrook Company and of the New York, Westchester & Boston Railway Company, addressed a letter to President Mellen in which he stated that from an examination of the books and records which had been made, it appeared that Perry and Thorne had been overpaid to the extent of some \$1,729,000. From the detailed report of the examination made by the accountants for the Commission of the books of the Millbrook Company and the other companies concerned in the Westchester acquisition, which forms a part hereof and is included as Exhibit A in the appendix hereto, it appears that of the moneys disbursed by Perry and Thorne \$1,032,000 remains to be accounted for by them.

From the evidence it appears that the understanding with Thorne and Perry was that they were not to receive  $7\frac{1}{2}$  per cent commission on any money disbursed before the execution of the contract of December 4, 1906. From the books it appears that \$4,050,000 was disbursed by them prior to this date and that Thorne and Perry charged and collected their commission on this amount, amounting to \$303,750. This item was not taken into consideration by the attorney for the New Haven when the compromise settlement was agreed on and, it would seem, is still due the New Haven, and should be recovered from Perry and Thorne, or from the directors who permitted it.

The total sum therefore that was expended as the result of the action of this committee aggregates \$14,090,008.18.

When the details of this acquisition were exposed in this investigation it was urged in explanation that, by reason of the heavy terminal charge exacted from the New Haven on passengers delivered at the Grand Central station, it was very desirable that the New Haven have another entrance into New York City and that the Westchester provided such an entry. A very casual study, however, of the map of the Westchester and the New Haven lines into New York impeaches the reasonableness of any such explanation. The New Haven over the lines of the Harlem River & Port Chester Rail-

road Company, a road then owned by it, had an entrance into New York City via Second Avenue and Third Avenue elevated lines. The Westchester, as now constructed, uses the tracks of the Harlem River and Port Chester from One Hundred and Seventy-fourth Street into New York via these elevated stations. The subway has been constructed as far as Westchester Avenue and is being extended to One Hundred and Eightieth Street where a transfer station will be established with the Westchester, the two being some 300 feet apart at this point. At One Hundred and Seventy-fourth Street, however, the subway is only two or three blocks removed from the Harlem River and Port Chester. If the New Haven had wanted an entrance into New York City via the subway, it could have established a transfer station somewhere with this Harlem River line, just as it is preparing to do with the Westchester at One Hundred and Eightieth Street. It should be noted here, however, that this subway line is to be extended through to Mount Vernon, N. Y., paralleling the Westchester to that point, and furnishing a through rapid service into New York City. Again the Westchester has no visible connection with the main line of the New Haven below New Rochelle, and it can not relieve the New Haven of a larger part of its commuter traffic, on which the Grand Central Terminal charges are so serious a burden, than could the Harlem River and Port Chester.

In January, 1910, after the many franchise difficulties were cleared away, the Port Chester and Westchester were consolidated into one company designated as The New York, Westchester & Boston Railway Company, which company then constructed the line now known as the Westchester. This line is an electrified road extending from East One Hundred and Seventy-Fourth Street, New York City, to Mount Vernon, N. Y., a distance of 6.83 miles, which is for the most part an elevated structure of four main-line tracks, as required by the franchise. From Mount Vernon two of the main-line tracks diverge and extend to New Rochelle, N. Y., a distance of 2.16 miles, and the other two tracks extend to White Plains, N. Y., a distance of 9.04 miles, the whole aggregating main line owned of 18.03 miles. The construction cost of this road, as reported June 30, 1913, was \$22,344,165.07, itemized as follows:

|  |                |
|--|----------------|
| Land-----  | \$5,090,641.84 |
| Tangible street-railway capital-----                         | 229,704.94     |
| Right of way-----  | 9,448,649.79   |
| Electric line-----   | 625,978.67     |
| Building and structures-----                                 | 1,569,575.82   |
| Rolling stock and miscellaneous equipment-----               | 843,169.39     |
| Undistributed construction expenses, including interest----- | 4,536,444.62   |

To this figure, however, must be added the \$14,090,008.18 expended before the construction began, making a total of \$36,434,173.25, which yields the remarkable per mile cost of \$2,020,752.81.

In providing the money for this construction bonds to the extent of \$17,000,000, sold at a discount of \$1,200,000, were issued on the property, bearing the guaranty of the New Haven. This guaranty has meant a drain on the New Haven resources of \$1,250,000 per annum, since the earnings of the Westchester fall this far short of paying the fixed charges on the property. The president of the Westchester testified that the earnings of his road would have to increase  $4\frac{1}{2}$  times before the Westchester will become self sustaining.

What could have been the motive for unloading the Westchester upon the New Haven at the expense of the stockholders of the latter must be left largely to conjecture. The one accomplished result, however, of the Westchester transaction was the stifling of possible competition into New York City from New England.

The blame for the Westchester rests squarely upon the directors of the New Haven road. Some are guilty for acts committed; others, the greater number, for their failure to act. They are alike culpable and responsible to the stockholders.

#### RHODE ISLAND TROLLEYS.

The purchase of the Rhode Island trolleys was another instance of millions wasted in acquiring properties that bring an annual deficit instead of a surplus, and constitute a liability instead of an asset in the New Haven system.

The trolley lines of Providence and vicinity are operated by the Rhode Island Company under a 999-year lease. To acquire control of this company the New Haven expended in money and securities \$24,352,336.41. The Rhode Island Company represents a cash investment of only \$9,685,500, which was expended for improvements and extensions, being the par value at \$100 per share of 96,855 shares of capital stock issued. All of this stock is owned by the New Haven; 53,510 shares were acquired from the New England Navigation Company on May 18, 1908, in exchange for certain notes of the New England Investment & Securities Company, the stock in certain Massachusetts trolley companies, and in liquidation of cash advances to the Navigation Company. The remaining shares were acquired through cash advances direct to the Rhode Island Company.

The Navigation Company obtained the stock of the Rhode Island Company through merger of January 31, 1908, with the Providence Securities Company, which company then owned this stock. The Providence Securities Company acquired the stock by issuing \$19,899,000 of its debentures in exchange for the securities of the



Rhode Island Securities Company, and it was through this exchange that the New Haven obtained its control of the Rhode Island property.

The Rhode Island Securities Company was then wound up. The Providence Securities Company now exists only in name since its merger with the Navigation Company, but its debentures, amounting to \$19,899,000, still stand as a liability of the Navigation Company and bear 4 per cent interest. These debentures are guaranteed by the New Haven road, both as to principal and interest.

The interest on the Providence Securities Company's debentures is paid by the Navigation Company. Taking into account this expenditure and the interest on the money which the New Haven has invested in the Rhode Island trolleys, these properties have stood the New Haven system an average annual loss of approximately \$648,680.

The evidence shows that the Rhode Island trolley transactions were deliberately entered into with a full knowledge of the large deficit that they would bring, and with the determination to acquire trolley control in Providence regardless of expense.

A committee of the board of directors of the New Haven had been appointed for the purpose of looking into the Providence trolley situation, with a view of purchasing that property, and this committee, after considering the proposition, reported adversely. Not content to abide by this action of his board, Mr. Mellen, after some six months, revived the matter. This was done after a conference between Mr. Mellen and former Senator Nelson W. Aldrich, who was largely interested in the United Traction & Electric Company, the largest lessor company.

The United Gas Improvement Company, of Philadelphia, that controlled this property under lease, had capitalized the future hopes of the proposition into a holding company known as the Rhode Island Securities Company and had issued \$19,899,000 of debentures, which represented an investment of approximately only \$6,000,000. The difference in these amounts was, as Mr. Mellen testified, merely capitalized water.

Not to be deterred by extravagant expenditure, Mr. Mellen undertook to exchange the debentures of the Providence Securities Company, which he had created for the purpose, for these debentures of the Rhode Island Securities Company, and to add thereon the guaranty of the New York, New Haven & Hartford Railroad Company, both as to principal and interest. The result of the transaction was to enable the United Gas Improvement Company to realize par value on these securities based merely upon lively expectation of future



possibilities, and thereby immediately placed the burden of the watered stock upon the backs of the New Haven stockholders.

The millions that were made from this transaction did not come through magic, but were brought into existence at the expense of the stockholders of the New Haven, upon whom and the public the yoke of giving value to these securities ultimately rested, and the New Haven stock was diluted to the extent of the water thus added. This gas company also owned some Connecticut trolley lines, and it was made a further condition of the Rhode Island trolley acquisition that the New Haven take over these properties.

When the details had been worked out by Mr. Mellen for the assuming of this additional burden the board of directors without question acquiesced. Mr. Mellen testified that these Connecticut trolleys represented a payment of about \$10,000,000 more than their value.

This transaction seems such an extravagant purchase as makes it a matter of interest just who owned the securities of the Rhode Island Securities Company. This information could be furnished from the stock books of that company, but during the progress of this investigation it was learned that these books had also been burned. A detailed report on the Rhode Island trolleys is to be found in the appendix made a part hereof, Exhibit B.

The Rhode Island and Connecticut trolley ventures are further evidences of the prodigality in the expenditure of the money of the New Haven stockholders in carrying out an unlawful policy of transportation monopoly.

#### THE STEAMSHIPS.

The New Haven, from time to time, had felt the harassing effect of competition from the steamship lines that plied between the several larger cities that it served. Restless of any limitation of his power, President Mellen proceeded to acquire the steamship lines and thereby stifle this interference with the New Haven properties.

The Hartford & New York Transportation Company cost the New Haven \$2,538,916.78; the Eastern Steamship Corporation cost \$4,200,000; the Merchants & Miners Transportation Company cost \$5,774,500; the New Bedford, Marthas Vineyard & Pawtucket Steamboat Company cost \$141,700; the New England Steamship Company cost \$12,100,000; the Maine Steamship Company \$17,300, or a total of \$24,772,416.78.

The testimony shows that the physical valuation of the properties acquired as a result of these outlays approximates something like \$10,000,000. The New Haven advises that it has recently disposed of its holdings in the Merchants & Miners' Transportation Company at a loss of \$3,594,500.

These steamship lines were not acquired by the New Haven openly, but covertly and by devious methods. Dummy companies, and dummy officers and directors were used in financial maneuvering that resulted in the New Haven controlling these steamships.

In connection with these steamship purchases it was necessary to have piers. The record shows money payments in connection with pier leases which were unmistakably improper, and these payments were covered up by being charged on the books of other companies to the New Haven under such headings as "repairs on steamers."

There were payments to one John Hall McKay of many thousands of dollars for which no itemized vouchers were given. Mr. McKay left for Europe after this investigation was commenced, and his evidence could not be secured. These pier leases in the city of New York are controlled by public officials, as the municipality owns the piers and arrangements for the leases had to be made through these officials. But because of the methods employed to conceal these expenditures by increases of capital stock and otherwise, it has been impossible to give any total amount of these payments.

After Mr. Mellen had obtained control of every boat line of any importance in New England he suddenly changed his attitude when the public discovered the real ownership. It was then that he proposed and urged that they be disposed of, but in this he was over-ridden by his board.

#### STEAMERS "YALE" AND "HARVARD."

One of the most complicated problems resulting from corporate entanglement and intercorporate transactions is the method by which the New York, New Haven & Hartford Railroad Company eliminated the steamers *Yale* and *Harvard* from competition in New England passenger traffic and secured control of certain freight steamers and wharf property in Boston.

In 1910 the Metropolitan Steamship Company, which owned wharf property, freight steamers, and the passenger boats *Harvard* and *Yale*, operating between New York and Boston, was in the hands of a receiver appointed by a United States court in Portland, Me.

These assets passed from the receiver to the Assets Realization Company of New York, and, pending negotiations with Mr. Mellen for the acquisition of this property, passed to a new corporation then organized, known as the Metropolitan Steamship Company of New Jersey.

The negotiation with Mr. Mellen for the taking over of this property had proceeded up to the point where Mr. Robbins, the general counsel for the New York, New Haven & Hartford Railroad Company, was instructed by Mellen to prepare a letter accepting a proposition for the sale of a controlling interest in the corporation then

owning the wharf property, freight steamers, and passenger boats hereinbefore referred to. Robbins proposed that the matter should be held up until he had further time to examine into it. It was thereafter determined to take a different course in the matter. From this time on Mr. Mellen disclaims any further activities on behalf of the New Haven, but in his testimony says he is unable to tell how the freight steamers and wharf property officially came into the possession of the Eastern Steamship Company, which latter company is admittedly controlled by the New Haven.

The story of the companies through which this property passed under the direction of Mr. Robbins, the general counsel for the New York, New Haven & Hartford Railroad Company, is indeed a remarkable exhibition of corporate legerdemain. In order to effectuate the transaction there were the following corporations formed and used to finally accomplish the withdrawal of the *Harvard* and *Yale* from the eastern coast, and the control by the New Haven of the freight steamers and wharf property. These corporations are: Metropolitan Steamship Company; Metropolitan Steamship Company of Maine (No. 2); the Hudson Navigation Company; Chilmark Company; Pacific Navigation Company; Pacific Securities Company; Eastern Securities Company; Eastern Steamship Company; and New England Securities Company.

Witnesses who were officers of some of these companies appeared before the Commission and testified that they acted as "dummies" under the directions of Robbins and of attorneys selected by him. Some of them handled, without any knowledge of the nature or purpose of the transactions, checks approximating \$3,000,000.

The Metropolitan Steamship Company of New Jersey, February 18, 1910, sold the freight boats and equipment of the Metropolitan Steamship Company to Wing & Russell, lawyers, in the city of New York, for \$650,000. Wing & Russell merely acted as agents for Warren D. Chase, a lawyer of Hartford, Conn., allowing the name of their firm to be used, but never paying for or receiving the boats, the transaction having been arranged by Mr. Robbins.

On the 3d day of March, 1910, the Metropolitan Steamship Company sold to Edward T. Canfield, a lawyer of Hartford, Conn., Union Wharf properties in Boston for \$350,000, to be paid for in first mortgage bonds of the Metropolitan Steamship Company of New Jersey. About the 1st of March, 1910, Warren D. Chase organized under the laws of the State of Maine the Metropolitan Steamship Company, known as the Maine Company No. 2, of which Grover C. Richards was "dummy" treasurer, and although Richards knew nothing of the nature or the purpose of the company, he owned practically all the stock of said Metropolitan Steamship Company No. 2.

On Saturday, March 5, 1910, Grover C. Richards, acting under the direction of Warren D. Chase, deposited to the credit of the Metropolitan Steamship Company of Maine No. 2, in the bank of the Manhattan Company, in the city of New York, checks aggregating \$3,200,000. The records of this bank show that Richards was introduced by Mr. Hemingway, Mr. Billard, and Mr. E. D. Robbins, vice president of the New York, New Haven & Hartford Railroad Company. On the same day Grover C. Richards paid out checks for \$3,166,000 of the sum deposited by him, although he knew nothing of the nature of the transaction. This money was undoubtedly used to pay for the bonds and securities used in handling the transfer of this property, and shortly afterwards freight boats and dock properties were found in the possession of the Metropolitan Steamship Company of Maine No. 2.

To hold securities of the Metropolitan Steamship Company of New Jersey, a company known as the Chilmark Company, organized with "dummy" directors and "dummy" officials, who knew nothing whatsoever of the nature of the company or its purpose or its assets, in October, 1910, went through the form of purchasing 14,373 shares of the stock of the Metropolitan Steamship Company of New Jersey.

The *Yale* and *Harvard* were leased by the Metropolitan Steamship Company of New Jersey to the Metropolitan Steamship Company of Maine No. 2, in March, 1910, for the season of 1910 only.

At the expiration of this lease the Metropolitan Steamship Company of New Jersey leased these steamships to the Pacific Navigation Company, organized about that time under the laws of the State of New Jersey. In the same month Warren D. Chase organized a corporation, under the laws of Connecticut, known as the Pacific Securities Company, to which company the Metropolitan Steamship Company of New Jersey executed a second mortgage on the *Yale* and *Harvard* for \$750,000.

In January, 1912, the Eastern Steamship Corporation was organized and is now operating the freight steamers referred to and other steamships in which the New Haven has directly and indirectly a title and interest.

Mr. Robbins represented the Metropolitan Steamship Company in selling to the Eastern Steamship Company the freight steamers of the Metropolitan Steamship Company of Maine. The Eastern Steamship Corporation issued in payment for said properties of the Metropolitan Steamship Company of Maine, stock and bonds of the Eastern Steamship Corporation. This stock stands on the books of the Eastern Steamship Corporation in the name of the Eastern Securities Company, a corporation organized in January, 1912, in Augusta, Me.



By this series of corporate transactions the New Haven has indirectly accomplished a purpose which it set out to accomplish. It now owns the freight steamers and the wharf property in Boston formerly owned by the Metropolitan Steamship Company, and the *Harvard* and *Yale* have been removed from competition with the New Haven.

This was all done through the work of its general counsel, E. D. Robbins.

The devious methods used, the tangled web of corporate transactions through which this property passed, and the use of "dummies," who knew nothing of the purposes for which they were being used, all clearly indicate that the purpose of these circuitous methods was to conceal the hand of the New Haven. The names of the men who vouched for the "dummy" treasurer, Richards, and who undoubtedly furnished the money which at the inception of this transaction he was blindly using, also seem to point to the New Haven.

#### BOSTON & MAINE.

Before the New Haven secured control of the Boston & Maine Railroad, the stockholders of the latter had realized substantial dividends for a period of more than 50 years. Its credit was high and its stock was, in the year 1900, officially valued by the railroad commission of Massachusetts at \$190 per share.

The Boston & Maine, before the New Haven secured control, was conservatively managed, had a low capitalization, and only a moderate debt. Its capitalization was \$28,000,000 common, \$3,000,000 preferred, and its debt was \$34,000,000.

There is reason for the belief that this railroad in the hands of its former management would have continued to pay dividends and serve its constituency of passengers and shippers with reasonable able rates and adequate facilities.

At this stage of the fortunes of the Boston & Maine, Gardner Lane, of the banking house of Lee, Higginson & Company, of Boston, approached Lewis Cass Ledyard, who represented in the directorate of the Boston & Maine 55,000 shares of stock held and owned by the American Express Company. Mr. Lane made a proposition to Mr. Ledyard that the express company should exchange its Boston & Maine shares for New Haven shares. It does not distinctly appear in whose behalf Lane acted in making this proposition. The fact, however, that he was a member of a firm which had long represented New Haven interests, and which had one of its members on the directorate of subsidiary companies of the New Haven, leads to



the inference that this proposition was the result of a desire on the part of the interests dominating the New Haven road to secure control of the railroad traffic of New England. As the result of these negotiations, the American Express Company sold its stock to the New England Navigation Company, a subsidiary of the New Haven. This was the beginning of evil days for both the Boston & Maine and the New Haven.

In passing, it may be said that the accumulation of large blocks of stock by a transportation company like the American Express Company, in a railroad system with which it has contractual relations is a source of weakness to the railroad rather than a source of strength. Such massed holdings have no fidelity to the smaller holdings nor to the entire property. There is no community of interest between such large holders of stock and the small investor, and directors representing such holdings have their first fidelity for their primary trusteeship. This is illustrated to a marked degree in the legacy of wrong which the American Express Company left the Boston & Maine on its departure to the New Haven. An onerous contract then existing between the Boston & Maine and the American Express Company, with 6 years to run, was extended for a period of 20 years. The New Hampshire Public Service Commissioners made a finding that the difference between the amount paid the Boston & Maine by this contract and the amount which would have been paid under an equitable contract, such as existed between the express company and other roads, amounted to \$700,000 per year. By this extended contract the Boston & Maine is likely to lose, conditioned upon the same volume of business, approximately \$10,000,000.

With the American Express Company stock, other stock of the Boston & Maine was gathered in by the New England Navigation Company, acting on behalf of the New Haven, until the latter road had a controlling interest in the Boston & Maine. This move, disastrous as it was to prove to both roads, was illegal under the Massachusetts laws and, without serious doubt, under the Federal antitrust law; but impolitic, unwise, illegal, and disastrous as it was to prove, it was undertaken.

Its illegality was soon demonstrated by a decision of the Supreme Court of Massachusetts, relating to the New Haven holdings in Massachusetts trolley companies; *Atty. Gen. v. N. Y., N. H. & H. R. R. Co.*, 198 Mass., 431; 84 N. E., 737.

With the realization of the illegality of its control of the Boston & Maine stock began the startling series of transfers, shifts, and evasions by which it was sought to make it appear that the New Haven had divested itself of the Boston & Maine stock, while at all

times it was being retained in friendly hands, and under the control of the New Haven.

It may be of interest to note the passage of a controlling number of shares of the Boston & Maine stock—

First, from American Express Company and others to New England Navigation Company.

Second, from New England Navigation Company to John L. Billard, nominally.

Third, from John L. Billard to National City Bank as collateral.

Fourth, from National City Bank to the New Haven.

Fifth, from the New Haven to the New England Navigation Company.

Sixth, from New England Navigation Company to Boston Railroad Holding Company.

This stock was, during all these migrations, financed, owned, and controlled by the New Haven. And by virtue of this ownership and control of this stock during all this time, it placed its own officials in charge of the Boston & Maine and selected the directors thereof.

The movement downward of Boston & Maine stock did not begin until the Mellen-Morgan-Rockefeller management was forced upon it. The depreciation of the Boston & Maine stock after coming into the control of these men was indeed rapid.

The financial strength of the Boston & Maine, which had been made manifest for more than half a century, was converted into financial weakness in half a decade after passing into the control of men who had the reputation of being eminent financiers. These great names proved to be of no reliance to investors.

The management of the Boston & Maine by the New Haven was unwise. It began in illegality and in a lust for extended monopoly and has resulted in great depreciation and serious impairment of credit.

Before leaving the Boston & Maine aspect of this investigation it seems to be germane and proper to refer to the apparent ease with which the domination of this road was secured to the financial interests of the New Haven without any expenditure by them. This was done by inducing an exchange of the Boston & Maine stock owned by the American Express Company for New Haven stock. Thus by a mere exchange of stock those controlling the New Haven were enabled to extend their domination over almost the entire railroad property in five States. Those who at first were merely employed as fiscal agents of the railroads to negotiate their securities used that knowledge in the effort to become the masters in supreme control of the transportation interests of the country. This is an illustration of what has been a most dangerous tendency in recent times.

## THE BILLARD TRANSACTIONS.

The New Haven had acquired 109,948 shares of Boston & Maine stock, which it held through the New England Navigation Company. Under the decision of the Massachusetts court above referred to, the New Haven was ordered to divest itself of the title to this stock. A transfer was arranged, and one John L. Billard, a stockholder in the New Haven road, was selected as the nominal purchaser. Mr. Billard was a coal merchant of Meriden, Conn., where he paid taxes on property listed at \$30,000.

The price at which the stock was to be purchased by Mr. Billard entailed the raising of the large sum of \$13,743,500. It is hardly necessary to say that the stock was never in the actual possession of Mr. Billard. Eleven millions of dollars of the required amount was obtained from the National City Bank of New York, on a note signed by John L. Billard, with the 109,948 shares of stock deposited as collateral. The Navigation Company then accepted an unsecured note signed by Mr. Billard for the balance, namely, \$2,743,500. This was on June 30, 1908.

The New Haven at once set in motion its agencies for influencing public opinion, which resulted in the introduction of a bill in the Legislature of Massachusetts authorizing the creation of a company known as the Boston Railroad Holding Company. This company was empowered to acquire and hold a majority of the stock of the Boston & Maine Railroad Company. This bill became a law June 24, 1909. Just six days afterwards, on June 30, 1909, the New Haven Railroad entered into a contract with John L. Billard by which Billard agreed to transfer this Boston & Maine stock back to the Navigation Company. The price specified in this contract was \$150 per share, which resulted in Billard receiving credit for \$2,748,700 more than he was charged originally for the stock.

Soon after the original transaction the New Haven, through its general counsel, E. D. Robbins, took steps to have the Billard Company incorporated, with a view of then having Mr. Billard transfer the title to the Boston & Maine stock to this company. The charter, however, was not granted until August 24, 1909, after the Boston Railroad Holding Company bill had become a law, and after the contract of June 30, 1909.

Although the purpose for which the Billard Company was conceived had ceased to exist, the charter was accepted and the company organized, evidently to serve some other purpose. Instead of the New Haven's canceling the several obligations that had passed back and forth between the parties in effecting these transfers, \$16,250,000 of debentures of the New England Investment & Security Company, which had been in the treasury of the New England Navigation Com-

pany, were transferred to the Billard Company, and the Billard Company in turn transferred to the New England Navigation Company \$14,250,000 of its gold notes and issued \$2,000,000 of capital stock. At the meeting of the board held October 8, 1909, President Mellon offered a statement which was copied into the minutes, showing that all this capital stock had been deposited in the treasury of the New Haven Company.

The New Haven, by the payment to the National City Bank of a premium of some \$30,000, and the principal and accrued interest on the \$11,000,000 note, obtained the 109,948 shares of Boston & Maine stock which were on deposit there as collateral. This stock in turn was transferred to the New England Navigation Company, and then by it transferred to the Boston Railroad Holding Company, the several transactions being almost simultaneous, and each a part of the whole transaction of once more getting the Boston & Maine stock openly under the control of the New Haven.

The Navigation Company at different times had advanced to Mr. Billard and the Billard Company cash aggregating \$3,000,000.

In October, on the same day that the 109,948 shares of the Boston & Maine stock were transferred to the Boston Railroad Holding Company, an additional 15,755 shares of common stock and 5,826 shares of preferred stock were transferred to the Boston Railroad Holding Company by Mr. Billard.

A noteworthy circumstance is that the stock transferred from the Navigation Company was taken over at \$140 per share by the Boston Railroad Holding Company, and this stock was taken back from Mr. Billard by the Navigation Company at \$150 a share, entailing a loss to the New Haven of \$1,099,480.

The situation produced by the decision of the Massachusetts court made it necessary that the New Haven *claim* that the transfer from the Navigation Company to Billard and from Billard back to the Navigation Company was a bona fide sale and repurchase.

That Billard, however, was merely a New Haven agency is shown by the following facts which stand out in the record:

1. He never paid a dollar of his own for the stock or in any of these transactions.
2. He never bought a share of Boston & Maine stock where the New Haven did not furnish him the money.
3. He never sold a share of the Boston & Maine stock except as the New Haven dictated.
4. All securities nominally held by the Billard Company were kept in a subdivision of the vaults of the New Haven.
5. The Billard Company was organized by the general counsel of the New Haven.
6. The Navigation Company furnished the \$2,000,000 for which the Billard Company was capitalized. Billard testified that he did not pay any of his own money for the stock.



7. The Billard Company bought other Boston & Maine stock in addition to the 109,948 shares.

8. There is no evidence that the Billard Company acted for or on behalf of any interest other than the New Haven.

9. The whole capital stock of the Billard Company was used as his own by Charles S. Mellen as collateral security for his own personal borrowing of \$375,000.

10. The Billard Company paid out of its treasury \$375,000 to enable John L. Billard to repossess himself of the \$2,000,000 capital stock of that company after the same had been pledged by Mr. Mellen.

11. J. L. Billard purposely burned his books and papers so as to get them out of the way.

12. The Billard Company was used to take over some of the questionable assets of the New Haven and assets which it was desirable to conceal.

13. The minutes of the board of directors of the New Haven show that Billard was to receive no profit out of this transaction other than a reasonable compensation.

14. In two other transactions shown in this case Billard and his company were admittedly used to accomplish New Haven purposes, and in one of them, which resulted in a loss, the New Haven made up the deficit to the Billard Company.

The following transcripts from the records of the New Haven seem to be conclusive that the Billard Company and its assets belonged to and were the property of the New Haven:

Book No. 4, directors' minutes, page 318:

At a meeting of the board of directors of the New York, New Haven & Hartford Railroad Company, held pursuant to legal notice at office of the company in the city of New York on Friday, October 8th, 1909, at 3.30 o'clock p. m.

Present: President Mellen in the chair, and Messrs. Rockefeller, Morgan, Miller, Brush, Warner, Milner, Skinner, Barney, Taft, Elton, Hemingway, McCrea, Robertson, McHarg, Ledyard, Pratt, and Lawrence. \* \* \*

The president reported that under the contract for the purchase and sale of one hundred nine thousand nine hundred and forty-eight (109,948) shares of common stock of the Boston & Maine Railroad, owned by Mr. John L. Billard, of Meriden, Connecticut, and acting under authority of the executive committee, he had purchased these shares of Boston & Maine Railroad stock held by Mr. Billard, delivered them to the Boston Railroad Holding Company, and adjusted with Mr. Billard, so far as he was able to up to the time of this meeting, so that the situation is as follows:

This company had:

|  |                    |
|--|--------------------|
| Notes of the New England Investment & Security Company       |                    |
| at par-----  | \$16, 250, 000. 00 |
| Cash in the Farmers' Loan & Trust Company-----               | 11, 000, 000. 00   |
| In the treasury of the New England Navigation Company, notes |                    |
| of John L. Billard-----                                      | 2, 743, 000. 00    |
|  | <hr/>              |
|  | 29, 993, 000. 00   |
|  | <hr/>              |

There is now in the treasury of this company :

|   |                   |
|---|-------------------|
| Stock of the Boston Railroad Holding Company----- | \$1, 649, 200. 00 |
| Bonds of the Boston Railroad Holding Company----- | 13, 743, 000. 00  |
| Stock of the Billard Company-----                 | 2, 000, 000. 00   |
| Bonds of the Billard Company-----                 | 14, 250, 000. 00  |
|   | <hr/>             |
|   | 31, 642, 200. 00  |

This shows a nominal profit of \$1,649,200.00.

That he was to secure an assignment of this profit, but did not have time to do so in advance of this meeting; that he holds the same subject to an adjustment of interest with Mr. Billard upon his return to New Haven; and asked that his action in the matter so far as reported be approved.

Whereupon, on motion, duly seconded, it was—

Voted. That the action of the president as above reported be approved, ratified, and confirmed. \* \* \*

[Page 340:]

On motion, duly seconded, it was—

Voted, that a committee consisting of the president and Directors Rockefeller, Morgan, Ledyard, Pratt, Cochrane, Skinner, and Brooker be, and is hereby, appointed with power to determine from time to time the policy of this company in respect to the affairs of the Boston & Maine Railroad and to advise the president in relation thereto.

Attest:

JOHN G. PARKER, *Secretary*.

[Page 319.]

Voted, that the plan explained at this meeting for carrying out the contract of June 30, 1909, regarding one hundred nine thousand nine hundred and forty-eight (109,948) shares of Boston & Maine Railroad common stock, and for acquiring securities of the Boston Railroad Holding Company to be issued for said stock.

In ratio of fifteen (15) dollars of stock and one hundred twenty-five (125) dollars of four (4) per cent, bonds of the holding company for each share of Boston & Maine Railroad stock is approved, provided that all the shares of stock the Billard Company and all profits, actual or nominal, realized by Mr. Billard, less a reasonable compensation for his services and risks, and the amount of his actual expenses in connection with the purchase and sale of Boston & Maine stock be first vested in the New York, New Haven & Hartford Railroad Company and subject to the disposition of its board of directors.

On motion the meeting then adjourned.

(Signed)

JOHN G. PARKER, *Secretary*.

A futile effort to explain away this record was made by suggestion and intimation of error in the make-up of the record, but all doubt upon this matter is dispelled and Billard's position made clear as a mere agency of the New Haven by the records of the executive committee meeting of July 25, 1913, at which meeting the following members of the executive committee were present: Messrs. Mellen, Rockefeller, Skinner, Hemingway, Cuyler, and Morgan. Directors Vail and Taft were also present by invitation.

At this meeting President Mellen read a memorandum which was his comment on the Commission's report on the New Haven, and which memorandum in part is as follows:

#### THE BILLARD TRANSACTION.

Suffice it to say to the committee that Mr. Billard never received any important monetary consideration for his services in securing to the New Haven Company immunity from the attack by the Massachusetts authorities because of the holding by the New Haven Company of Boston & Maine stock.

Had a banker been in the position of Mr. Billard, the charge for similar service would have been something appalling. Mr. Billard stood to lose at one time his whole personal fortune. That good fortune later came to his rescue and let him and the company out without loss may be viewed almost as a special providence. Mr. Billard's compensation was modest and moderate, and he might well exclaim, as did Warren Hastings at his celebrated trial, "My God, when I consider my opportunities, I wonder at my moderation." The Billard Company is an agency which has nominally received a considerable profit, but its stock is so held that whatever profit accrues may ultimately come to the New Haven road.

The company owns all but 20 shares of its own capital stock, and these shares are held by individuals who are friendly to the New Haven Company, and I personally will undertake, when requested so to do, without consideration, to secure the transfer of the same to the New Haven or its representative when properly accredited, this \$2,000 of par value of stock which controls all the assets of the Billard Company, which are considerable (and the company is free from debt), but the company should not be liquidated until after the payment to it of the notes which it holds of the Massachusetts trolleys, amounting to \$13,709,000.

When these notes are paid, the Billard Company should be liquidated, and its assets will then, as stated above, come to the New Haven as net profit, without further consideration or compensation of any name or nature.

It is quite evident that it was not the understanding of the board that Billard should receive a profit of \$2,748,700 out of these transactions, but that at most he was to receive only a reasonable compensation for the service he performed for the New Haven, which was estimated at different amounts, varying from \$100,000 to \$500,000.

In this connection it should be noted that during the year from June 30, 1908, to June 30, 1909, when the Boston & Maine stock stood in Mr. Billard's name the difference in the dividends which he received at 6 per cent on the 109,948 shares of stock and the interest he was paying on the \$13,743,500 netted Mr. Billard \$164,948.

Considerable has been said concerning the risk which Mr. Billard incurred in connection with this transaction; nothing has been said of the risk which the Navigation Company took in accepting Mr. Billard's unsecured note for \$2,743,500. It was testified to both by Mr. Billard and Mr. Mellen that the latter agreed, on behalf of the New York, New Haven & Hartford Railroad Company, that this company would help to finance the transaction, and the fact that Mr.

Billard did not put up a dollar and was plainly acting for the New Haven indicates that if there had been a loss instead of a profit Mr. Billard would have been taken care of by the New Haven road.

It is significant that while Mr. Billard was not a director when this stock was transferred to him, he was elected a director July 10, 1909, before the transfer back had been completed, although it is to be noted that he did not accept his election until October 16, 1909, 10 days after the transfer.

All the assets of the Billard Company belong to the stockholders of the New Haven Railroad. All the money sunk in its operations belonged to the New Haven Railroad.

A suit should be maintainable by the New Haven against Billard and all who have participated in this fraud upon the stockholders.

#### THE NEW ENGLAND INVESTMENT & SECURITY COMPANY.

This company and its affairs constitute a striking illustration of the deliberate attempt to entangle the New Haven with street railways which has recently been publicly avowed by former President Mellen.

The company is not a corporation and is not a copartnership. It is a trust, the form of which is permissible under the laws of Massachusetts. It was organized by and in behalf of the New Haven in 1906 in the form of an agreement and declaration of trust.

As far as the evidence shows, it never had any assets of material value which were not provided by the New Haven.

Its primary purpose was to take from and hold for the New Haven the Massachusetts Trolley interests of that company.

The Supreme Judicial Court of Massachusetts (198 Mass., 413) decided in substance that this company was not separate and independent of the New Haven, but was a mere device of that company to continue to hold stock in Massachusetts Trolleys in violation of the laws of that State.

The testimony shows that Charles S. Mellen held control of the common stock of this company through James B. Brady, as a dummy, until quite a recent period. These shares have been transferred to Sanderson & Porter, a firm of railroad contractors and builders, who since 1902 have from time to time been engaged in operations for the New Haven.

It seems quite clear in view of the relations of this firm with the New Haven in the past that this stock is now held by Sanderson & Porter for the New Haven.

All profits which this company has made in the past have been the result of transactions in the purchase and sale of securities in which the New Haven had title or large interests, not in the open market, but under circumstances which would have been collusive and fraudu-



lent if this security company was in fact an independent organization entirely separate from the New Haven.

On its note there were turned over to it at one time \$9,918,145.65 of securities bought and paid for with New Haven funds.

It has always been used as a mere instrumentality of the New Haven. It has always submitted to New Haven plans of operation. It has always been operated by men close to the New Haven and who have figured in other transactions of that company.

The inside facts as to its dealings show a continued operation in violation of Massachusetts laws and in flagrant violation of the injunction issued by the highest court of that State.

As indicating the purpose of the New Haven to keep the stock of the New England Investment & Security Company within its control, attention is called to an extract from a letter of Charles S. Mellen, president, to Bentley W. Warren, marked "Personal and confidential," and dated July 20, 1908:

You will at once see the advantages accruing to the individuals who have undertaken to purchase common shares of the New England Investment & Security Company. They will be recompensed to the extent of ultimately receiving 300 per cent in common shares of the Bennington & North Adams, which, under a lease to the New Haven, will pay 5 per cent; therefore they earned 15 per cent on their money and practically in perpetuity.

While this seems a large sum, it is not, in my judgment, an unreasonable compensation for the service performed, which is a great one, for it thus leaves in friendly hands the control of the trolley system, known as the New Haven's, in the Commonwealth of Massachusetts, until such time as will eventually arrive when good sense will prevail and the policy of the Commonwealth be changed so far as railroads controlling railways is concerned.

If the contention now made by Mr. Mellen, that Sanderson & Porter own individually and free from any control of the New Haven, all the common stock of the New England Investment & Security Company, that firm would, upon a dissolution of the trust, be personally entitled to all the assets and securities in the possession of the New England Investment & Security Company which have been purchased with the funds of the New York, New Haven & Hartford Railroad Company, and also would have certain voting control in trolley companies which have cost the New Haven large amounts.

Suit should be maintainable by the New Haven to reduce to its own possession the assets controlled by the New England Investment & Security Company.

A summary of the operations of the New England Investment & Security Company as recorded on its books appears in the appendix, identified as Exhibit D.

## QUESTIONABLE METHODS EMPLOYED TO INCREASE THE AMOUNT OF CAPITAL STOCK.

Increases in capital stock of the New York, New Haven & Hartford Railroad Company have been made upon the basis of transfers of assets from one subordinate company to another.

The steamship properties of this system at one time were held by the New England Navigation Company, approximating a cost of \$11,500,000. This latter company in 1907 transferred the title to these steamship properties to the Consolidated Railway Company at a value of \$20,000,000. The Consolidated Railway Company thereupon increased its capital stock \$20,000,000. The Consolidated Railway Company was then merged with the New Haven, and the stock of the latter company increased \$30,000,000, \$20,000,000 of which went to the New England Navigation Company, and placing in its treasury by this transaction \$20,000,000 Consolidated Railway stock, which by the merger became New Haven stock, with a market value of over \$30,000,000. It was this stock with which control of the Boston & Maine Railroad Company was secured.

After the New England Navigation Company had divested itself of the steamship properties, to operate which it was formed, one would naturally expect that the Navigation Company, having served its purpose, would have been closed up and its charter surrendered, but having a charter which had powers sufficiently large to permit of general banking operations, the Navigation Company has been utilized from time to time as a holding company for the accomplishment of irregular transactions, indefensible under any test of sound business management.

## MANIPULATION OF ACCOUNTS.

Proper accounting demands that the records of a company should reflect accurately the transactions relating to the matter recorded, and where accounts fail to reveal a true history of the transactions it can be due to but one of two causes—carelessness or design.

Several transactions appear of record which show that by no stretch of imagination can the irregularity of recording be classified as due to carelessness; the following are illustrations:

In February, 1911, the New York, New Haven & Hartford Railroad purchased 23,520½ shares of the Rutland Railroad Company's stock from the New York Central & Hudson River Railroad Company, giving in exchange therefor its check upon the Farmers' Loan & Trust Company in the sum of \$2,364,977.15. No entries can be found in the record of the New Haven Company which reveal this transaction. The stock thus acquired was on the same day, with a

check for \$135,022.85, delivered to the New England Navigation Company in exchange for its note of \$2,500,000. The effect of the recording of this transaction is that the sum paid the New York Central for the stock shows as a cash advance to the New England Navigation Company.

February 14, 1910, the New England Navigation Company sold, through the firm of J. P. Morgan & Company, 50,000 shares of New York, New Haven & Hartford Railroad Company stock at a price of 157 net, the cash proceeds amounting to \$7,849,000. A check was remitted by J. P. Morgan & Company for \$5,162,203.02 to the New England Navigation Company, and 16,744 shares of Worcester, Nashua & Rochester stock were acquired for the account of the New England Navigation Company at a total cost of \$2,686,796.98. Neither the receipt of this stock nor the disposition thereof is recorded in the records of the New England Navigation Company. The record shows, in lieu of this stock being purchased and sold to the Boston & Maine, the acquisition of a note of the Boston & Maine Railroad for an amount equal to the cost of the stock of the Worcester, Nashua & Rochester Railroad.

In the acquisition of the Boston & Maine stock from J. L. Billard, in accordance with an agreement dated June 30, 1909, the New England Navigation Company was to receive, after July 1 and until the delivery of the stock to the Boston Railroad Holding Company, all dividends declared thereon, while all interest on the notes of the New England Investment & Security Company to be delivered in the purchase price of the stock was to revert to J. L. Billard. No entries can be found in the records of the New England Navigation Company disclosing the fact that, on October 2, 1909, there was received a quarterly dividend of  $1\frac{1}{2}$  per cent paid to it by J. L. Billard, the stockholder of record, and, while the amount was entered in the accounts, it was under the caption of "interest" and not as "dividends" upon this stock, the purpose evidently being to eliminate from the record all trace of any return upon these securities.

#### PAYMENT OF DIVIDENDS BY SUBSIDIARY COMPANIES.

As one illustration of the devious financial operations of this railroad let us take the undisputed facts appearing of record as to shifting of funds to show dividends earned in the year 1912, as exhibited in the annual accounts. This is not an isolated case, but was more in the nature of a practice with the subsidiary companies, as the investigation discloses.

To make up its own income account the New York, New Haven & Hartford Railroad Company reported as receiving certain sums

as dividends on stocks owned and controlled, the largest item of which appears to be a dividend of \$2,252,500 from the New England Navigation Company, which was paid, according to the record, on June 26 and June 29, 1912. Prior to June 26, 1912, the cash balance of the New England Navigation Company appears to have been \$168,368.35. During the few days intervening between June 26 and June 29, 1912, the Navigation Company received from sundry sources \$24,103.26, making a total of \$192,471.61. These amounts represent the aggregate of the cash on hand with which the New England Navigation Company had to pay to the New York, New Haven & Hartford Railroad Company \$2,252,500 as dividends on its stock owned by the New York, New Haven & Hartford Railroad Company. To enable them to pay the dividend in cash the New England Navigation Company gave to the New York, New Haven & Hartford Railroad Company its demand note, receiving therefor \$2,000,000 in cash.

The effect of the transaction means that the New York, New Haven & Hartford Railroad Company advanced \$2,000,000 in cash for another company to pay to it dividends on its stock, and included the amount so advanced in its income account as a dividend received. In other words, the New York, New Haven & Hartford Railroad Company set up in its income account an item of \$2,000,000 on the one side, and an asset consisting of \$2,000,000, in paper, on the other side.

The same methods apply to the income account of the New England Navigation Company, as, for instance, on June 24, 1912, the New England Navigation Company loaned to the Housatonic Power Company \$100,000 in cash, and on June 26, 1912, two days later, received a dividend from the Housatonic Power Company amounting to \$105,000 in cash.

On June 24, 1912, the New England Navigation Company loaned to the Hartford & New York Transportation Company \$100,000 in cash, and on June 27, 1912, received \$301,635 from the Hartford & New York Transportation Company as a dividend.

The accounts of the company are replete with instances in which profits have been declared to be earned by the transfer of stocks, bonds, debentures, and securities of one of the subordinate and subsidiary companies of the New Haven system to another such subsidiary, and such profits are solemnly recorded as real profits in making up the accounts of the system as a whole.

Transactions of this kind do not make real profits any more than the transfer of money or securities from one pocket to another would result in profit to an individual.

When it is remembered that this system is made up of more than 300 companies, independently chartered, and that subsidiary and



holding companies were created in large numbers to serve some temporary purpose or some ulterior design of those who operated the system as a whole, and as there was almost a continuous passage of securities between these companies, the difficulty in unraveling the intricate affairs of this company has presented a serious problem in this investigation. The explanation of the purpose of many of these complicated transfers and statements of account has not been available to the Commission by reason of the illness of H. M. Koche-sperger, financial vice president in charge of the accounts of the New Haven system, and his subsequent journey to Europe after having been subpoenaed to appear and testify.

#### DUMMY COMPANIES.

The frequency with which dummy corporations and dummy directors appear in this record leads to the conclusion that some one high in the counsels of the New Haven had an obsession upon the subject of the utility of such sham methods. The directors of the Billard Company confessed that they were dummies and knew nothing of its operations. Why men of respectability and standing as these appear to be should lend their names as dummies passes comprehension.

In the organization of one of the steamship companies the young lady stenographer was made president; and a youth of 21 years of age by the name of Grover Cleveland Richards was selected as treasurer of another company.

Clerks and irresponsible persons were drawn upon to supply the demand for dummies in the financial joy riding by the management of the New Haven. Mellen's stock in the New England Investment & Securities Company was held by James B. Brady, who testified that he was merely a dummy for Mr. Mellen. Director Skinner's stock in this same company was held by a relative and a bookkeeper in his office. Thus, throughout the entire story of deception, the New Haven management vainly endeavored to hide the true facts behind these dummy individuals and dummy corporations.

As a matter of law, such devices are feeble and puerile, but if the master financiers behind these New Haven transactions could use these sham methods and thus give their indorsement to the availability of such crooked schemes to cover the true substance and fact of financial transactions it indicates a low state of financial morality. No condemnation can be too severe to apply to the frequent use of these companies by the New Haven.

While in many States there are safeguards established by law, in other States there is such a prodigality in the creation of corpora-

tions as to greatly prejudice the interests of investors, creditors, and the public welfare generally.

While stock in the New Haven road was listed on the New York Stock Exchange a large portion of its funds were invested in "blue sky" corporations, the officers of which knew nothing of the purposes or assets of the companies of which they were managers or officers.

#### LARGE PURCHASES WITHOUT BIDS.

Purchases of cars and coal are two large expenditures that railroads make. The New Haven purchased cars almost exclusively from James B. Brady without competition and to the extent of some \$37,000,000. Mr. Brady, as a witness, made no secret of his generosity to the officials with whom he had business. His methods were justified by him on the ground that the officers of the New Haven were old friends.

Locomotives were purchased from a company in which a director of the New Haven was also a director. Many supplies obtained by the New Haven were from companies having directors who were also directors of the New Haven.

Corporate economy is not practicable where gifts and obligations arising from friendship tend to obscure official duty.

#### POLITICAL CONTRIBUTIONS.

The New Haven Railroad had no politics. It was Democratic in Democratic States and Republican in Republican States. As Mr. Mellen testified, its effort was always to "get under the best umbrella."

Payments made for political purposes totaled a large sum.

For instance, in 1900, \$50,000 was contributed by the New Haven for campaign purposes through J. P. Morgan & Company. No proper and complete voucher for this payment appears on the books of the New Haven Company.

In 1904 a payment of \$50,000 was made through Mr. Mellen for political purposes. This was secretly done and not reported to the directors or stockholders or in any manner made public.

No public-service corporation may rightfully use corporate funds to promote a political cause or to support a political candidate or a political party.

A corporation as such has no political principles to maintain and no political candidates to support.

The revenues of a public-service corporation are for the most part derived from the exercise of the right delegated to it by the sovereign power to tax the public by fixed rates established in accordance with

law. Shippers and the traveling public may be presumed to be divided in political opinion. Corporate revenue derived by public tax from men of one political conviction can not be used to support the fortunes of a candidate or party of contrary political principles.

Regardless of the injustice to stockholders and travelers belonging to another party which results from such use of funds, the withdrawal from corporate use and the diversion to political use is illegal and indefensible.

Corporate funds may not be used for other than corporate purposes.

That there was, at the time of such taking and diversion from corporate use, no express statute making such acts criminal, in no degree justifies or renders lawful such indefensible use of corporate funds. It was always dishonest.

The State itself may not use public funds for other than purposes prescribed by law. No creature of the State can assert power of which the State itself is devoid, to use money derived from a tax on shippers and travelers to promote the interests of any political party.

Nor is the "education" of the public upon economic issues any part of the province of a corporation such as here in question.

Such political and "educational" use of corporate funds is a gross injustice to the stockholders and the public.

#### WASTE—IMPAIRMENT OF VALUE—LOSSES.

In attempting to estimate the losses of the New Haven stockholders, the three large items of loss with which we are confronted are those arising out of the acquisition of the Boston & Maine stock, the New York, Westchester & Boston stock, and the Rhode Island trolleys.

Two hundred and nineteen thousand one hundred and eighty-nine shares of the common stock, 6,543 shares of the preferred stock, and one bond of the Boston & Maine Railroad are carried for the New Haven by the Boston Railroad Holding Company, as of December 31, 1913, at \$30,303,653.18. There must of necessity be a large loss upon the capital invested in this Boston & Maine stock, by reason of the depreciation thereof in the market, caused by the New Haven's mismanagement.

It is difficult to form an estimate of the extent of this depreciation.

The Boston Railroad Holding Company, on October 1, 1909, took over the New Haven's Boston & Maine stock at \$140 per share.

At present the Boston & Maine stock is selling in the market at somewhere around \$40 per share.

The market depreciation of the common stock of the Boston & Maine owned by the New Haven is therefore \$20,475,025.68.

Where figures are submitted as estimates herein they are and must of necessity be taken only as approximations.

There is the additional loss growing out of the unfortunate Billard transaction of \$2,748,700 unless John L. Billard is compelled, as he should be, to make restitution.

In addition there have been large expenses incurred in litigation, in procuring legislation, and in a vain attempt to stem the tide of adverse popular opinion.

A summarization of these figures, where they are specific, is as follows:

Depreciation (using market price of \$40) :

|                                  |                    |
|----------------------------------|--------------------|
| Boston & Maine-----              | \$20, 475, 025. 68 |
| Billard transaction-----         | 2, 748, 700. 00    |
| Total depreciation and loss----- | 23, 223, 725. 68   |

It is extremely difficult to make an estimate of the loss on the New York, Westchester & Boston investment by the New Haven. It is fair to assume, in view of the character of the assets obtained by the original expenditure of \$11,155,000 by the further expenditure of Mr. Mellen of \$1,200,000 for shares "not worth 10 cents a pound," and from further facts recited in relation to the Westchester proposition in another portion of this report, that there was a wasteful expenditure of New Haven capital, approximately \$9,800,000, accounted for by the following items, for which no commensurate return was received by the New York, New Haven & Hartford Railroad Company:

\$6,264,914.10, representing the amount for which there was nothing tangible received for the payment by the New Haven of \$11,155,000.

1,200,000.00, expended by Mr. Mellen in the accomplishment of the franchise amendments to the Westchester properties.

1,085,935.41, paid in settlement of the William C. Gotshall suit.

50,000.00, attorneys' fees in the same case.

1,200,000.00, representing the loss to the New Haven on the sale of New York, Westchester & Boston bonds guaranteed by the New Haven at par.

The stock of the Westchester Company now held by the New Haven is given by that road a book value of \$6,241,951.76. In reality, its present worth is merely nominal.

The notes of the Westchester property held by the New Haven are given a book value of \$5,708,000. These notes have absolutely no market value.

The annual loss on the last two items to the New Haven, on a 4 per cent basis, would be \$477,998.07.

The annual deficit to the New Haven from bond interest, interest on other obligations, and taxes resulting from the Westchester venture amounts to \$1,179,243.92. When the operating deficit is added, the total annual loss to the New Haven is \$1,657,241.99.



With the prospect of a continuous deficit for years to come, there can be little doubt that the total loss to the New Haven as a result of the Westchester proposition will amount to approximately \$17,000,000.

Since we treat the New England Investment & Security Company as a subsidiary of the New Haven Company, for reasons heretofore stated we conclude that losses of the former company are borne out of assets furnished by the latter.

The Hartford & Worcester Street Railway Company stock was bought by the New England Investment & Security Company at a cost of \$134,980, and sold to another subsidiary at \$61,585.73, a loss of \$73,394.27. The New England Investment & Security Company also bought preferred stock of the Springfield Railway Companies for \$746,929.15, and sold it for \$543,708, a loss of \$203,221.15. The Navigation Company lost \$10,500 by the purchase of 5 per cent debentures of the Worcester Consolidated Street Railway Company. The New England Investment & Security Company lost \$15,580 in the first mortgage  $4\frac{1}{2}$  per cent bonds of the Worcester & Southbridge Street Railway Company.

The stock of the Connecticut Company, carried now as an asset by the New England Navigation Company, represents a cost or book value of \$40,000,000. The only available appraisal of this stock show a loss of \$12,535,386.01. The stock of the Rhode Island Company, carried by the New Haven at a book value of \$24,352,336.41, is shown by the only available appraisal to be worth \$6,000,000, a loss of \$18,352,336.41.

A summary of the foregoing is as follows:

|   |                    |
|---|--------------------|
| Boston & Maine.....                         | \$23, 223, 725. 68 |
| New York, Westchester & Boston.....         | 11, 457, 156. 09   |
| Hartford & Worcester Street Railway.....    | 73, 394. 27        |
| Springfield Railway Companies.....          | 203, 221. 15       |
| Worcester Consolidated Street Railway.....  | 10, 500. 00        |
| Worcester & Southbridge Street Railway..... | 15, 580. 00        |
| Connecticut Company.....                    | 12, 535, 386. 01   |
| Rhode Island Company.....                   | 18, 352, 336. 41   |
| Total.....                                  | 65, 871, 299. 61   |

There was a loss in the recent sale of the New Haven interests in the Merchants & Miners Steamship Company of \$3,594,500.

In the directors' report of the New York, New Haven & Hartford Railroad Company to the stockholders June 30, 1913, there are deficits reported in the operation of its subsidiary companies for the year, as follows:

|   |             |
|---|-------------|
| Berkshire Street Railway System-----            | \$91,861.00 |
| New York & Stamford Railroad Company-----       | 36,556.66   |
| Westchester Street Railroad Company-----        | 54,753.96   |
| Hartford & New York Transportation Company----- | 10,714.30   |
| Housatonic Power Company-----                   | 243.09      |
| Millbrook Company-----                          | 174,143.82  |
| New England Steamship Company-----              | 355,070.50  |
| Westport Water Company-----                     | 2,724.37    |

Making a total deficit resulting from the operation of these properties for the one year of----- 726,067.70

These annual losses will, to a large extent, recur from year to year for an indefinite period, and therefore represent large future losses.

From all of the foregoing and from a careful consideration of the method in which expenditures, not specified herein, have been made, it is submitted that a reasonable estimate of the loss to the New York, New Haven & Hartford Railroad Company by reason of waste and mismanagement will amount to between \$60,000,000 and \$90,000,000.

The splendid property of the New Haven Railroad itself will be called upon for many a year to make up the drain upon its resources resulting from the unpardonable folly of the transactions outside the proper field in which stockholders supposed their moneys were invested.

But honesty and efficiency of management of this property as a railroad only, will undoubtedly, in time, restore its former standing.

#### EVIL OF INTERLOCKING DIRECTORATES.

A system of interlocking directorates has grown up and flourished in the past few years which has brought about combinations and intercorporate relationships not conducive to the public welfare. On the New Haven board of directors there was a representative of the Pennsylvania Railroad, which railroad owned 35,000 shares of New Haven stock; there was a representative of the New York Central, which owned 35,000 shares; there was a representative of insurance interests that owned 35,000 shares and a representative of an express company that had a contract with the railroad; there were directors who were also directors of the Standard Oil Company, the United Steel Corporation, the Pullman Company; in fact, every other interest seemed better represented on the New Haven board than the average stockholder's interest.

The practice of one man serving on many boards of directors can not be too strongly condemned. The man who holds directors' positions in a dozen corporations may be thoroughly honest in his relations with each, but it is not practicable for him to give the stockholders of each corporation the full benefit of his ability and energy when, in truth, he can afford only a small fraction of his attention to each corporation. If he is not permitted to know of the real workings of the corporation and, when he serves on so many boards, that is in the nature of things impossible, the corporation gets an indorsement to which it is not entitled.

There are too many ornamental directors and too many who have such childlike faith in the man at the head that they are ready to indorse or approve anything he may do.

A director should be an active, not a passive, force. He should understand the affairs of the corporation to which he gives the prestige of his name, at least to the extent of knowing the integrity of its designs and the absence of law-breaking methods in its operation, and he should not accept positions which he can not fill in this comprehensive way.

Through the control of voting strength resulting from stock ownership by other corporations, a few persons whose individual holdings were small in comparison with the volume of stock of the company were enabled to perpetuate their full control of the New Haven Company.

While the Connecticut laws require the majority of the directors to be residents of that state, the selection of Connecticut directors depends entirely upon the choice of the controlling and dominating interests in the company. In a similar manner the control of other great corporations is maintained by means of interlocking directorates.

The handling of bank deposits and security sales of these corporations are massed in a few hands, carrying with them a power and domination over large amounts of banking capital as well as the control of great railroad systems. These and other evils as the result of interlocking directorates are now well recognized and known, and they have been emphasized by the disclosures of this investigation.

#### FUNDS TO BE RECOVERED ON BEHALF OF THE STOCKHOLDERS.

From the facts developed in this investigation, it would seem that there is little question concerning the recovery of a substantial amount of the stockholders' money that has been wasted. Several

items of this nature have already been suggested herein and will be briefly summarized:

|   |              |
|---|--------------|
| Overpaid Perry and Thorne in commissions.....                   | \$303,750.00 |
| Illegally spent in obtaining Westchester franchise changes..... | 1,524,072.77 |
| In the Billard transaction.....                                 | 2,748,700.00 |

NOTE.—The money with which Billard acquired the 15,755 additional shares of common stock and 5,826 shares of preferred stock of the Boston & Maine Railroad Company was furnished by the New England Navigation Company. This stock was turned back to the Navigation Company for \$3,370,082. It would seem that a suit by stockholders for the recovery of the profit, if any was made by Billard in the transactions involving these additional shares, could be also maintained.

If any expenditures were made in violation of the antitrust laws of the United States, are not such expenditures *ultra vires* and is it not the legal obligation of the directors to satisfy out of their own fortunes any loss which results to the company?

These are all pertinent questions in the light of the developments brought about by this investigation.

Only lawful expenditures are authorized.

All illegal disbursements are *ultra vires*.

Directors can not without accountability deplete a corporate treasury in ventures which are in violation of the laws of the land.

#### DIRECTORS CONSCIOUSLY TRANSGRESSING ANTIMONOPOLY LAWS.

The evidence shows that in pursuance of the policy of transportation monopoly the New Haven purchased the Connecticut trolleys, the Rhode Island trolleys, the Massachusetts trolleys, steamship lines, the Boston & Maine Railroad, and other means of transportation that were available and purchasable. That this plan was done in violation of the Federal statute it seems quite clear, for competition was sought to be destroyed. That the directors were conscious they were proceeding along lines that were probably inhibited by law is evidenced by the testimony of Director Elton, that as each line was purchased some one would ask the question in the board of directors if it were not in violation of law, and that Mr. Robbins, general attorney for the New Haven, would state to the board that the New Haven charter permitted them to do anything.

It appears, therefore, that not only were these consolidations contrary to law, but these directors were cognizant of that fact, and contented themselves with the advice of counsel that under the company's charter it could do anything it pleased.



## THE QUESTION OF IMMUNITY IN SECURING EXPOSURE OF ABUSES.

In the investigations the Commission is required to make from time to time it has, in accordance with its usual custom, exercised due caution not to require the testimony of witnesses where immunity might result except when it is necessary in order to get at the truth. The purpose of the immunity statute, as the Commission understands it, was to aid in the search for facts by removing the obstacle of witnesses refusing to testify on the ground of self-incrimination, and under the statute the Commission has always endeavored to exercise a sound discretion in this regard. In carrying out the instructions of the Senate in this case the Commission has therefore kept in mind the warning of the Department of Justice to carefully consider before placing a witness upon the stand the effect his testimony might have in the way of immunizing him from criminal prosecution. The Commission has only used such witnesses as seemed necessary to fully answer the Senate's inquiry and has refrained from calling those witnesses whose evidence, while interesting, might be merely cumulative.

With respect to Mr. Mellen, former president of the New Haven system, it was the belief of the Commission that his testimony was necessary in this investigation, and the result, in our opinion, fully justifies this position.

Evidence of wrongdoing such as was disclosed in this hearing is difficult to obtain. Men do not conduct such transactions in the open, but rather in secret and in the dark. Only those involved, as a rule, have direct information. So some of the evidence of necessity must come through participants.

The Commission has proceeded upon the idea that it is better to expose wrongdoing, even if in doing so it would be necessary to use a few witnesses whose testimony might bring them immunity, than through fear of bestowing immunity on some, leave facts unknown and uncovered and thereby give immunity to all, not only as to prosecution but to the stigma of exposure as well.

## NEW HAVEN MONOPOLY CORRUPT.

This investigation has demonstrated that the monopoly theory of those controlling the New Haven was unsound and mischievous in its effects. To achieve such monopoly meant the reckless and scandalous expenditure of money; it meant the attempt to control public opinion; corruption of Government; the attempt to pervert the political and economic instincts of the people in insolent defiance of law. Through exposure of the methods of this monopoly the invisible government which has gone far in its efforts to domi-

nate New England has been made visible. It has been clearly proven how public opinion was distorted; how officials who were needed and who could be bought were bought; how newspapers that could be subsidized were subsidized; how a college professor and publicists secretly accepted money from the New Haven while masking as a representative of a great American university and as the guardians of the interests of the people; how agencies of information to the public were prostituted wherever they could be prostituted in order to carry out a scheme of private transportation monopoly imperial in its scope.

#### DIRECTORS CRIMINALLY NEGLIGENT.

It is inconceivable that these wrongs could have gone on without interference if the members of the board of directors had been true to the faith they owed the stockholders. A number of directors appear in many instances to have voted without knowledge and to have approved the expenditure of many millions without information. According to the testimony of some of the directors they merely approved what had been done by some committee or by some officer of the company. The directors' minutes reveal that it was largely a body for ratification and not authorization, as the law intended a board of directors should be. None of the directors would have been so careless in the handling of his own money as the evidence demonstrates they were in dealing with the money of other people. The directors actively or passively acquiesced in the efforts of the Mellen-Morgan-Rockefeller régime to extend the domination of this corporation over the whole transportation field in New England.

If these directors who were faithless to their stewardship were held responsible in the courts and at the bar of public opinion for the failure to do those things they should have done, the lesson to directors who do not direct would be very salutary.

Most of the directors of the New Haven accepted their responsibilities lightly. They failed to realize that their names gave confidence to the public and that their connection with the corporation led the public to invest. When these directors were negligent and serious losses resulted therefrom they were guilty of a grave dereliction of duty and a breach of trust that was morally wrong and criminal in its fruits.

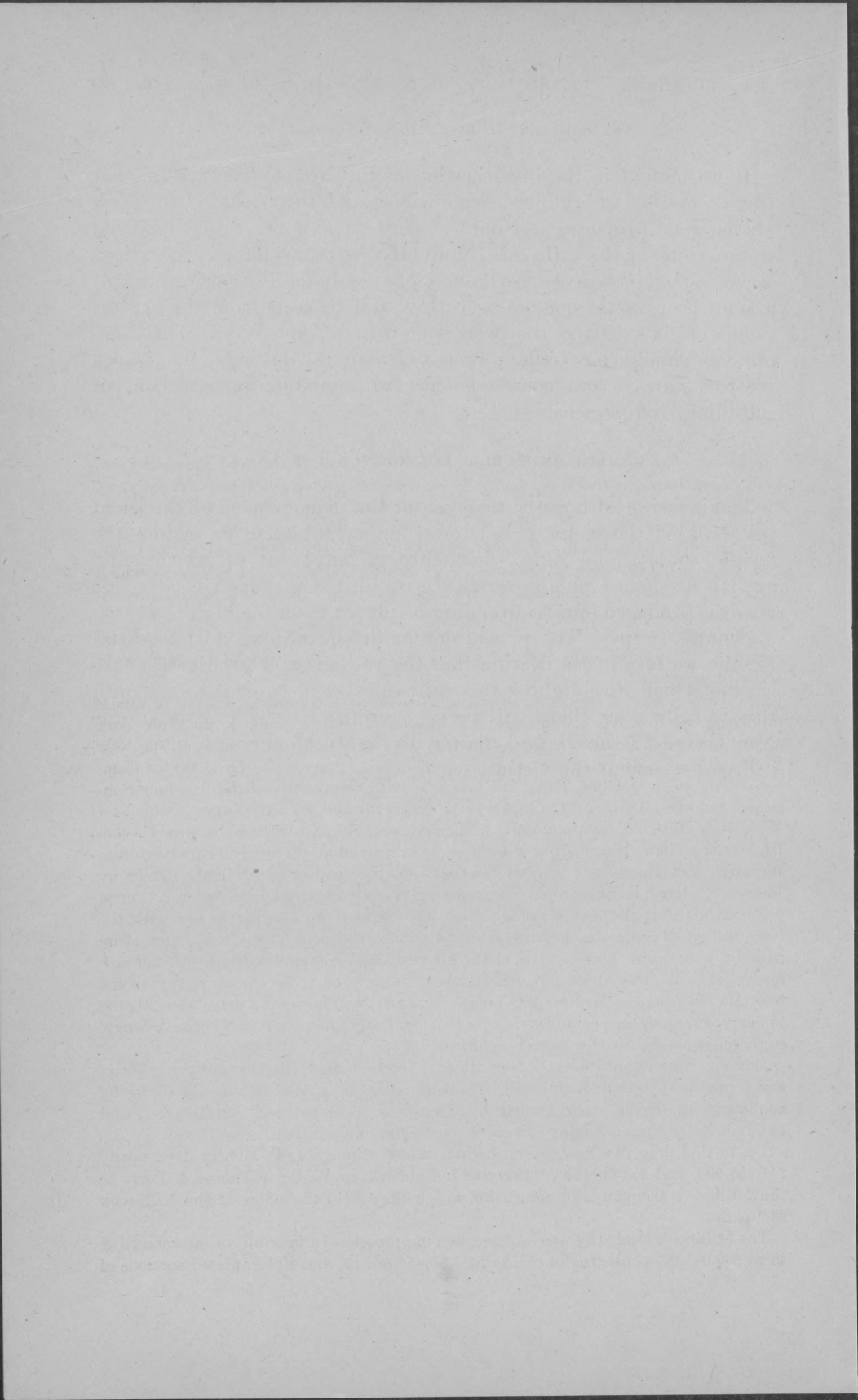
Directors should be made individually liable to civil and criminal laws for the manner in which they discharge their trust. A corporation can be no better or worse than those who operate it. It should be just as grave a crime to plunder stockholders or the public through a railroad corporation as it is to personally rob an individual.

## SUBSIDIARY CORPORATIONS CONDEMNED.

It was found in the investigation of the New Haven system that there were 336 subsidiary corporations, and the books of the New Haven road proper reflect only a small part of the actual financial transactions of the railroad. Many of these subsidiary corporations served no purpose save an evil one. They were used to cover up transactions that would not bear scrutiny, and to keep from the eyes of public officials matters that were sought to be kept secret. The Commission should have the power to examine not only the books, records, papers, and correspondence of interstate carriers, but of subsidiary companies as well.

## REMEDY IN PUBLIC CONSCIENCE AND LAWS.

The insuring of honesty throughout the management of the great railroads of the country is a most important question before the people to-day, and only when through exposure of wrongdoing and an awakened public conscience coupled with effective laws this result is produced, may railroading be placed upon the high level that it should occupy. The revelations in this record make it essential for the welfare of the Nation that the reckless and profligate financiering which has blighted this railroad system be ended, and until this is fully done there will be no assurance that the story of the New Haven will not be told again with the stockholders of some other railroad system as the victims.





## APPENDIX.

### EXHIBIT A.

THE NEW YORK, NEW HAVEN & HARTFORD RAILROAD COMPANY'S INVESTMENT  
IN NEW YORK, WESTCHESTER & BOSTON RAILROAD COMPANY AS OF OCTOBER  
31, 1907.

#### GENERAL.

This investigation involves the New York, New Haven & Hartford Railroad Company investment in the New York, Westchester & Boston Railroad Company, an electrically operated line extending from Harlem River in the city of New York to New Rochelle and White Plains, N. Y. It was undertaken primarily for the purpose of ascertaining what became of the \$12,000,000 referred to in 27 I. C. C., 560, 581, and is, in part, a response to resolution No. 260 of the United States Senate, which directed the Interstate Commerce Commission to reopen the New England investigation and ascertain this among other things.

It became necessary, therefore, to make a thorough investigation of the books and records of all companies concerned and to exhaust every source of information to accomplish the end.

The early progress of the investigation developed a complicated state of affairs involving the New York, Westchester & Boston Railroad Company, the New York & Port Chester Railroad Company, The City & County Contract Company, The New York Railroad & Development Company, Thorne & Perry, and the Millbrook Company. Between October, 1906, and January, 1907, the control of the first four companies were acquired by Thorne & Perry, acting for and with the funds of the New York, New Haven & Hartford Railroad Company, hereinafter called the New Haven. In January, 1907, the Millbrook Company, organized at the instigation of Stetson, Jennings, and Russell, of counsel for the New Haven, but controlled entirely by Thorne & Perry, assumed the obligations previously incurred by Thorne & Perry, together with all the securities acquired, and entered into an agreement with the New Haven to complete the arrangements which Thorne & Perry had undertaken, namely, to acquire the securities of the above-named companies and build the railroad. This was the situation until October, 1907, when it became apparent to the New Haven that the Millbrook Company, backed by Thorne & Perry, were unable to carry out their agreement owing to the financial difficulties of Thorne & Perry, supposedly caused by the financial panic of 1907.

In view of these conditions the New Haven exercised its privilege under the contract and terminated the agreement with the Millbrook Company, took over its affairs by acquiring all of the stock owned by Thorne & Perry at par and interest, and obtained their resignations as officers of the Millbrook Company.

Up to this time the New Haven had advanced through J. P. Morgan & Company \$11,155,000, first to Thorne & Perry as individuals, and later to Thorne & Perry as the Millbrook Company, in return for which they held the notes of the Millbrook Company.

The Millbrook Company was in possession of property of a tangible value amounting to \$4,890,085.90, consisting of real estate, \$3,456,882.15, and uncompleted sections of

construction work, \$1,433,203.75. It is true that it also held the control of the several other companies named, through the ownership of stocks and bonds, but their value was of an indeterminable quantity. In other words, when the New Haven assumed direct control, it had for an expenditure of \$11,155,000 in cash, a tangible asset of \$4,890,085.90, and the option to construct one of two railroads, the charters and franchises of which were surrounded by legal difficulties and complicated situations.

So far as could be ascertained from the records available, the New Haven's money had been expended for the following purposes:

*Summary.*

|  |                 |
|--|-----------------|
| Total cash received from New York, New Haven & Hartford Railroad Co. as per detail attached.....                   | \$11,155,000.00 |
| Cash received for interest on bank balances, bonds owned, rents, and other miscellaneous sources.....              | 19,749.21       |
| Total cash received.....   | 11,174,749.21   |
| Less cash in treasury of Millbrook Co. when Thorne & Perry withdrew.....   | 231,830.96      |
| Cash to be accounted for.....  | \$10,942,918.25 |
| Cash accounted for as represented by the expenditures of Thorne & Perry and Millbrook Co. per detail attached..... | 10,110,791.18   |
| Balance of cash unaccounted for.....   | 832,127.07      |

*Cash advanced by New York, New Haven & Hartford Railroad Co. through J. P. Morgan & Co. to Thorne & Perry and Millbrook Co.*

| Date.               | Amount.       | By whom received.                 |
|---------------------|---------------|-----------------------------------|
| Oct. 19, 1906.....  | \$350,000.00  | Received by Thorne & Perry.       |
| Nov. 2, 1906.....   | 1,200,000.00  | Do.                               |
| Nov. 27, 1906.....  | 1,000,000.00  | Do.                               |
| Nov. 28, 1906.....  | 1,500,000.00  | Do.                               |
| Jan. 9, 1907.....   | 4,200,000.00  | Do.                               |
|                     | 8,250,000.00  | Total received by Thorne & Perry. |
| Mar. 2, 1907.....   | 300,000.00    | Received by Millbrook Co.         |
| Mar. 15, 1907.....  | 655,000.00    | Do.                               |
| Apr. 1, 1907.....   | 250,000.00    | Do.                               |
| May 22, 1907.....   | 500,000.00    | Do.                               |
| June 3, 1907.....   | 500,000.00    | Do.                               |
| June 15, 1907.....  | 500,000.00    | Do.                               |
| Sept. 25, 1907..... | 200,000.00    | Do.                               |
|                     | 2,905,000.00  | Total received by Millbrook Co.   |
| Total.....          | 11,155,000.00 |                                   |

*Expenditures made by Thorne & Perry and Millbrook Co. from cash received from New York, New Haven & Hartford Railroad Co. through J. P. Morgan & Co.*

New York, Westchester & Boston Railway Co.:

Cash paid to original subscribers to bonds—

|                |                     |
|----------------|---------------------|
| Principal..... | \$4,059,120.00      |
| Interest.....  | 56,108.94           |
|                | <u>4,115,228.94</u> |

Cash paid to Knickerbocker Trust Co. for loan made to City & County Contract Co. through syndicate managers (payment necessary to release bond underwriting which had to be pledged as collateral for loan)—

|                |                   |
|----------------|-------------------|
| Principal..... | 750,000.00        |
| Interest.....  | 16,250.00         |
|                | <u>766,250.00</u> |

Total..... 4,881,478.94

## New York &amp; Port Chester Railroad Co.:

|  |              |
|--|--------------|
| Cash paid to William C. Gotshall for 1,561 shares of capital stock, par value \$100 per share. | \$750,000.00 |
|--|--------------|

## City &amp; County Contract Co.:

|  |                     |
|--|---------------------|
| Cash paid to stockholders for 6,900 shares of capital stock, par value \$100 per share plus \$37,500 premiums, the total representing actual cash paid to City & County Contract Co. by the original subscribers to the stock. | 727,500.00          |
| Cash paid for note discounted by Oakleigh Thorne.  | 150,000.00          |
| Do.  | 25,000.00           |
| Do.  | 25,000.00           |
| Do.  | 10,000.00           |
|  | <u>937,500.00</u>   |
| Total.   | <u>6,568,978.94</u> |

## New York Railroad &amp; Development Co.:

|  |                      |
|--|----------------------|
| Cash paid to William C. Gotshall and associates for 15,500 shares of capital stock, * value \$25 per share, purchased at \$37.50 per share.  | 581,250.00           |
| Cash paid for interest on deferred payments on above.  | 34,875.00            |
|  | <u>616,125.00</u>    |
| Cash paid to William C. Gotshall and associates for 4,500 shares of capital stock, par value \$25 per share, purchased at \$37.50 per share. | 168,750.00           |
| Cash paid to William C. Gotshall for bonds of city of New York, par value \$25,000.  | 24,250.00            |
| Cash paid for Westchester Townsite Co. bonds, par value \$12,500.  | 12,500.00            |
|  | <u>821,625.00</u>    |
| Cash paid to Oakleigh Thorne for commissions.  | 372,669.22           |
| Cash paid to Marsden J. Perry for commissions.   | 372,669.22           |
| Cash paid to William A. Chesebrough for commissions.   | 39,228.32            |
|  | <u>784,566.76</u>    |
| Cash paid to treasurer of city of New York for New York City bonds, par value \$100,000.   | 93,879.17            |
| Cash paid to attorneys for legal services.   | 78,973.42            |
| Cash paid to Knickerbocker Trust Co., to repay loan to Millbrook Co.   | 50,000.00            |
| Cash paid to J. P. Morgan & Co. for interest on loans.   | 39,854.18            |
| Total.   | <u>1,868,898.53</u>  |
| Cash loaned to the City & County Contract Co. on notes.  | 1,642,435.16         |
| Cash paid to Mace Moulton for engineering expenses.  | 11,047.69            |
| Cash paid for franchise, State, and other taxes.   | 13,875.00            |
| Cash paid various persons for services, stationery, office furniture, and miscellaneous expenses.  | 5,555.86             |
| Total.   | <u>1,672,913.71</u>  |
| Total expenditures.  | <u>10,110,791.18</u> |

For the purposes of ready reference a brief statement of each of the companies involved in the transactions represented by the expenditures of the \$11,155,000 referred to, together with the cash receipts and expenditures of each company, are submitted herewith and are as follows: New York, Westchester & Boston Railroad Company; New York & Port Chester Railroad Company; City & County Contract Company; New York Railroad & Development Company; Thorne & Perry; Millbrook Company.

## NEW YORK, WESTCHESTER &amp; BOSTON RAILROAD COMPANY.

The New York, Westchester & Boston Railroad Company was incorporated on March 20, 1872, under the laws of the State of New York.

The early history of the company can not be satisfactorily recited, owing to the absence of substantial records, but from such records as were available there is every indication of a rather inactive career. There appears to have been 2,590 shares of capital stock issued, having a par value of \$100 per share, which was subscribed for and paid in cash, aggregating \$259,000, and a first mortgage authorized for \$15,000,000, but there is no record of any issue of the bonds. The moneys received from the sale of

stock were used for incorporation, organization, and other expenses of a similar character, the expenditures extending over a period of approximately four years. So far as can be ascertained, the company had no tangible assets, and in the early part of 1876 went into a receivership, the earliest date of record being March 25, 1876. From the latter date and until the early part of 1904, the receivership seems to have been continued, although there are no records showing the transactions of the receivers. On December 23, 1903, steps were taken to revive the company and legal proceedings were instituted to have the receivers discharged.

These efforts appear to have been successful, for, on April 25, 1904, the New York, Westchester & Boston Railroad Company entered into a contract with Charles H. Smith, presumably of Chicago, Ill., to construct the road from the vicinity of East One hundred and seventy-seventh Street, New York City, to Port Chester, N. Y., a distance of some 20 miles, more or less. For the construction of the road Smith was to receive \$15,000,000 in the bonds and \$19,000,000 in capital stock of the railroad company, the latter item being contingent upon the increase in capital stock to \$20,000,000 being authorized by New York State authorities, which authorization was obtained on August 30, 1904, and the stock issued.

On April 28, 1904, three days after the contract with Smith was made, it was, by mutual consent of the parties interested, assigned to the City & County Contract Company, to all appearances a corporation dominated by Smith and his associates, organized and incorporated April 12, 1904. (For full detail see City & County Contract Company.) Immediately after the City & County Contract Company had acquired the contract to construct the railroad the New York, Westchester & Boston company became very active.

It appears that a company known as the New York & Port Chester Railroad Company, organized on August 20, 1901, had proposed to build a railroad almost identical with the New York, Westchester & Boston line, and as soon as it became known that the Westchester Company had planned to commence construction, the Port Chester Company began legal proceedings involving the validity of the Westchester charter. As a result of these proceedings actual construction was deferred and numerous litigations followed, consequently little or nothing in the way of actual building of the line was accomplished until the latter part of the year 1909, at which time the validity of the Westchester charter had been established, legal obstacles had been removed, and actual construction began and continued until the completion of the present operated line.

During all of this time the New York, Westchester & Boston Railroad Company received its moneys from the City & County Contract Company through advances, loans, and sales of capital stock, and expended the moneys for corporate expenses, legal fees and other miscellaneous items. From the time of its reorganization and until October 31, 1907, it had received \$373,027.27 in cash and expended \$372,502.44, the details of which are set forth on the following statement:

Receipts:

|   |            |
|---|------------|
| Sale of stock .....                           | \$3,200.00 |
| Advances from City & County Contract Co. .... | 366,419.41 |
| Interest on bonds and deposits .....          | 1,188.93   |
| Miscellaneous other sources .....             | 2,218.93   |
|   | <hr/>      |
|   | 373,027.27 |

Expenditures:

|  |           |
|--|-----------|
| Franchise taxes .....                  | 25,315.06 |
| Legal expenses .....                   | 63,128.51 |
| Services of trustee for mortgage ..... | 10,000.00 |
| Services of consulting engineer .....  | 26,250.00 |
| Engraving bonds .....                  | 13,250.00 |
| Reading-Jersey Central bonds .....     | 20,199.37 |
| Directors' fees .....                  | 2,540.00  |
| Inspecting materials .....             | 4,931.57  |



# FINANCIAL TRANSACTIONS OF N. Y., N. H. & H. R. R. CO. 45

|   |                   |
|---|-------------------|
| Interest.....   | \$6,396.00        |
| Short-term loans.....   | 5,103.44          |
| Real estate.....  | 7,100.00          |
| Services, architects.....   | 1,000.00          |
| Pay rolls, office expenses, rent, stationery and printing, and other miscellaneous expenses.. | 187,294.49        |
|   | <u>372,502.44</u> |
| Balance, cash on hand.....  | 524.83            |

The affairs of this company were not investigated after October 31, 1907, as on that date the New York, New Haven & Hartford Railroad Company had acquired control of the property through Oakleigh Thorne and Marsden J. Perry, acting first, from October to December, 1906, as individuals, and later, from January, 1907, to October, 1907, as the Millbrook Company. (See Millbrook Company).

The New York, Westchester & Boston Railway, as constructed, extends from East One hundred and seventy-fourth Street, New York, to Mount Vernon, N. Y., a distance of 6.83 miles, for the most part an elevated structure consisting of four main-line tracks, as required by the franchise obtained from the city of New York. From Mount Vernon the line diverges, two main line tracks extending to New Rochelle, N. Y., a distance of 2.16 miles, and two to White Plains, 9.04 miles, aggregating main line owned 18.03 miles. From Harlem River to East One hundred and seventy-fourth Street, New York, a distance of 3.72 miles, the railroad uses the tracks of the Harlem & Port Chester Railroad, a subsidiary of the New York, New Haven & Hartford Railroad Company, making a total of 21.75 miles of line operated.

## NEW YORK & PORT CHESTER RAILROAD COMPANY.

The New York & Port Chester Railroad Company was incorporated on April 5, 1901, under the laws of the State of New York with an authorized capital stock of \$250,000 divided into 2,500 shares of \$100 each. On January 11, 1904, the capital stock was increased to \$20,000,000 and a bond issue of \$20,000,000 was authorized.

William C. Gotshall appears to have been active in the promotion of this company, the records indicating that the company received through him \$25,000 on April 3, 1901, as a 10 per cent subscription to the capital stock. As a matter of record all the cash receipts seem to have come from Gotshall in the shape of stock subscriptions and loans. From April 3, 1901, to October 31, 1906, 1,561 shares of stock were issued for \$156,100 in cash and cash borrowed from Gotshall aggregated \$125,100. During the same period these funds were all expended for various purposes, the detail of which appear on the following statement:

### Receipts:

|                              |                   |
|------------------------------|-------------------|
| Cash from sale of stock..... | \$155,100.00      |
| Loans.....                   | 126,100.00        |
| Interest on deposits.....    | 416.79            |
| Miscellaneous sources.....   | 255.06            |
|                              | <u>281,871.85</u> |

### Expenditures:

|  |                   |
|--|-------------------|
| Maps, plans, and engineer corps.....                       | 116,000.00        |
| Services civil engineer.....                               | 10,000.00         |
| Real estate.....   | 26,590.00         |
| Legal expenses.....  | 11,758.27         |
| Construction.....  | 37,726.75         |
| Bonds city of New York.....                                | 24,468.75         |
| Organization expenses—fees, etc.....                       | 10,488.73         |
| Salaries, office rent, stationery, and other expenses..... | 30,805.91         |
| Franchise tax.....   | 2,438.40          |
| Traveling and miscellaneous expenses.....                  | 9,817.38          |
| Office furniture.....                                      | 703.95            |
| Commissions.....   | 425.00            |
| Interest on assumed mortgages.....                         | 637.50            |
|  | <u>281,860.64</u> |
| Balance.....   | 11.21             |

The proposed line of the New York & Port Chester Railroad was almost identical with the line of the New York, Westchester & Boston Railroad, and as soon as it became evident that the latter company proposed to build its road the Port Chester Company began to contest the construction.

Numerous lawsuits and injunctions proceedings were instituted, resulting in long delays to the building of either line so that at October 31, 1906, or thereabout, all the Port Chester Company had accomplished was the purchase of some real estate and the expenditures of funds for various other purposes, as shown on the statement previously mentioned. Some time during October, November, and December, 1906, the exact date unknown, Oakleigh Thorne, of New York City, and Marsden J. Perry, of Providence, R. I., acquired control of the company through the purchase of the capital stock from William C. Gotshall (see Thorne & Perry and Millbrook Company), and from that time on the New York & Port Chester Railroad Company became practically an inactive concern.

#### THE CITY & COUNTY CONTRACT COMPANY.

The City & County Contract Company was organized and incorporated on April 12, 1904, under the laws of the State of New York, with a capital stock of \$800,000, divided into 8,000 shares of a par value of \$100 per share. Its charter authorized the company to engage in a general contracting business, deal in stock, bonds, and real estate and all other transactions incident thereto. On April 14, 1904, the incorporators, Richard P. Rivinae, Wm. H. Crawford, Marcus C. Dougherty, Malcolm C. Anderson, and Ford B. Irvine, each purchased one share of stock, paying therefor \$100, making an aggregate of \$500 with which the company began business. On April 28, 1904, the City & County Contract Company purchased and assumed a contract dated April 25, 1904, from Charles H. Smith, under the terms of which Smith was to construct the New York, Westchester & Boston Railroad and receive therefor \$19,000,000 in capital stock and \$15,000,000 in first mortgage bonds of the railroad company.

In acquiring this contract the City & County Contract Company paid to Charles H. Smith \$1,050,000 in cash and \$1,050,000 in capital stock of the New York, Westchester & Boston Railroad Company.

This payment was accomplished on July 18, 1904, and immediately thereafter Smith and his associates appear to have assumed control of the City & County Contract Company. As a matter of conjecture, Charles H. Smith and his associates, the most prominent of whom seems to be James P. McDonald, a railroad contractor of New York City, appear to have been very active in what might be termed a three-cornered arrangement;

First, in the resurrection of the New York, Westchester & Boston Railroad Company; second, in the construction contract with Charles H. Smith; and third, in organization of the City & County Contract Company and the assignment of the Smith contract.

While no records substantiate this connection, it is noticeable that the name of J. Treadwell Richards appears as attorney for all parties.

Another significant situation appears when it is remembered that the New York, Westchester & Boston Railroad Company took a new lease of life early in 1904, exact date unknown, the City & County Contract Company was organized April 12, 1904, the contract between Smith and the railroad company was executed April 25, 1904, and the same contract assigned by Smith to the City & County Contract Company on April 28, 1904. From the latter date and until November, 1904, the activities of the City & County Contract Company were of no importance, but on November 12, 1904, it entered into an agreement with Dick & Robinson, a banking firm of New York City, to act as managers of a syndicate to purchase the bonds of the New York,

Westchester & Boston Railroad Company. The terms of this agreement provided for the purchase of the entire bond issue, \$15,000,000, at 90, for which the syndicate managers were to receive a commission of  $2\frac{1}{2}$  per cent in cash and \$1,500,000 in stock of the railroad company for services in organizing the syndicate. In addition to this the City & County Contract Company were to give as a bonus three shares of stock of the railroad company to the purchaser of each bond.

The effect of this agreement was to obligate the City & County Contract Company to assume a loss of 10 per cent on the bonds sold, \$1,500,000, relinquish \$6,000,000 of railroad capital stock, \$4,500,000 to bond purchasers and \$1,500,000 to syndicate managers for services, and to pay to the syndicate managers  $2\frac{1}{2}$  per cent commission or \$375,000 in cash, aggregating a total of \$7,875,000 in cash, stocks, and bonds, out of the \$34,000,000 in stocks and bonds which it was to receive from the railroad company for construction.

This would seem to be rather extraordinary when it is remembered that the only source of revenue the City & County Contract Company had was from the sale of the railroad securities.

The agreement, however, was only partially fulfilled. From the time of the execution of the syndicate agreement until December 31, 1906, the City & County Contract Company received from the syndicate managers \$4,819,120 in cash, \$4,069,120 representing proceeds from sale of bonds and \$750,000 representing a loan from the Knickerbocker Trust Company obtained through the syndicate managers. During the same period this money had been expended for real estate, engineering expenses, and various other items incident to the construction of the railroad.

In October, 1906, dissatisfaction arose over the inability of the syndicate managers to obtain further payments on the bond subscriptions. All available sources for obtaining money had been exhausted and the City & County Contract Company was on the verge of bankruptcy. About this time Oakleigh Thorne and Marsden J. Perry, bankers, of New York City and Providence, R. I., respectively, submitted a proposition in which they offered to assume the syndicate managers' obligations, provide new underwriting, and provide funds for the Contract Company to carry on their construction contract. Accordingly, on October 26, 1906, agreements were entered into between Dick & Robinson, syndicate managers, City & County Contract Company, and Thorne & Perry, under which Thorne & Perry assumed all of the obligations, and received all of the rights and benefits of the original contract. Thorne & Perry reserved the privilege of purchasing all of the capital stock of the City & County Contract Company, a privilege which they subsequently exercised by paying to the stockholders \$727,500 in cash and representing 6,755 shares at \$100 per share, \$675,500, premiums on capital stock \$37,500, both amounts having been paid in cash by the holders of the stock, and \$14,500 in stock given to J. Treadwell Richards in settlement for legal services rendered. In other words, Thorne & Perry acquired control of the City & County Contract Company by the payment of \$727,500 representing all of the capital stock outstanding and consequently succeeded to the contract to build the New York, Westchester & Boston R. R. From this time until October 31, 1907, the City & County Contract Company continued its construction work, obtaining its funds through Thorne & Perry, furnished indirectly by the New York, New Haven & Hartford Railroad Company, at which time the latter company assumed direct control of the situation. No investigation was made of events subsequent to October 31, 1907.

From the date the City & County Contract Company became active, until October 31, 1907, when the New York, New Haven & Hartford Railroad Company took control of the situation, the Contract Company was involved in constant litigations brought about by suits and countersuits, injunctions, and legal proceedings instituted by the New York & Port Chester Railroad Company and other hostile interests, so that a small amount of construction work was accomplished.

The total amount of cash receipts, together with the expenditures for the period previously mentioned, appear on the following statement:

## Cash receipts to October 31, 1907:

|   |              |              |                     |
|---|--------------|--------------|---------------------|
| Subscriptions to capital stock.....       |              | \$655,500.00 |                     |
| Premiums on capital stock.....            |              | 37,500.00    |                     |
| Treasury stock sold.....                  |              | 20,000.00    |                     |
| Syndicate managers.....                   |              |              | 4,872,059.95        |
| Loans from Dick & Robinson.....           | \$525,000.00 |              |                     |
| Do.....                                   | 50,000.00    |              |                     |
| Do.....                                   | 50,000.00    |              |                     |
| Do.....                                   | 40,000.00    |              |                     |
|   |              |              | 665,000.00          |
| Loans from E. R. Dick.....                | 13,000.00    |              |                     |
| Do.....                                   | 2,000.00     |              |                     |
| Do.....                                   | 25,000.00    |              |                     |
|   |              |              | 40,000.00           |
| Loans from Railway Companies General..... |              | 150,000.00   |                     |
| Loans from Thorne & Perry.....            |              | 210,000.00   |                     |
| Loans from Millbrook Co.....              |              |              | 1,642,435.16        |
| Rentals from properties.....              |              | 59,677.22    |                     |
| Interest received on deposits, etc.....   |              | 25,809.71    |                     |
| Coupons from bonds owned.....             |              | 2,100.00     |                     |
| Property sold.....                        |              | 41,398.91    |                     |
| Esmond Stiles, special account.....       |              | 14,304.85    |                     |
| Deposits for payment of liens, etc.....   |              | 18,205.56    |                     |
| Rents from offices, etc.....              |              | 575.01       |                     |
|   |              |              | <u>8,454,566.37</u> |

## Cash expenditures to October 31, 1907:

|  |              |              |                     |
|--|--------------|--------------|---------------------|
| Cash expenditures for real estate.....                                   |              | 3,326,870.15 |                     |
| Construction.....  |              | 1,395,477.00 |                     |
| Loans and notes paid.....  |              |              | 893,838.81          |
| Notes favor Dick & Robinson.....   | \$665,000.00 |              |                     |
| Notes favor E. R. Dick.....  | 67,838.81    |              |                     |
| Notes favor railway companies, general.....                              | 161,000.00   |              |                     |
| Subway & Westchester Construction Co., capital stock.....                |              |              | 184,000.00          |
| Reading-Jersey Central, collateral trust bonds.....                      |              | 20,000.00    |                     |
| Legal expenses.....  |              | 117,741.58   |                     |
| Cash advances to New York, Westchester & Boston Railway Co.....          |              | 332,230.60   |                     |
| Commissions on sale of New York, Westchester & Boston Railway bonds..... |              | 138,112.50   |                     |
| Interest on New York, Westchester & Boston Railway bonds.....            |              | 220,547.94   |                     |
| Release of claims of contractors, etc.....                               |              | 52,435.16    |                     |
| Payment to Charles H. Smith.....   |              |              | 1,050,000.00        |
| Payment to James P. McDonald.....  |              |              | 375,000.00          |
| Expenses in connection with incorporation.....                           |              |              | 320.00              |
| Tax on capital stock of City & County Contract Co.....                   |              | 1,352.50     |                     |
| Interest on \$1,500,000, underwriting.....                               |              | 3,853.34     |                     |
| For privilege to construct road in Bronx.....                            |              | 4,000.00     |                     |
|  |              |              | <u>8,115,959.58</u> |

## Cash expenditures from vouchers recorded:

|  |             |  |                     |
|--|-------------|--|---------------------|
| Repairs to buildings, etc.....   | \$13,183.14 |  |                     |
| Interest paid on loans, etc.....   | 42,661.24   |  |                     |
| Title insurance.....   | 19,291.76   |  |                     |
| Insurance.....   | 3,426.29    |  |                     |
| Repayment of liens on property.....                                      | 16,710.56   |  |                     |
| Real estate expenses, salaries, etc.....                                 | 28,538.28   |  |                     |
| Taxes.....   | 36,404.68   |  |                     |
| Engineering fund.....  | 461.05      |  |                     |
| Furniture and fixtures.....  | 667.50      |  |                     |
| Payments made on account of New York, Westchester & Boston Railroad..... | 115,584.94  |  |                     |
| Miscellaneous items.....   | 21,008.01   |  |                     |
|  |             |  | <u>297,937.45</u>   |
| Cash on hand—  |             |  |                     |
| New York Trust Co.....   | 8,926.18    |  |                     |
| Knickerbocker Trust Co.....  | 1,722.00    |  |                     |
| Trust Co. of America.....  | 30,021.16   |  |                     |
|  |             |  | <u>40,669.34</u>    |
|  |             |  | <u>8,454,566.37</u> |



## NEW YORK RAILROAD &amp; DEVELOPMENT COMPANY.

From the records obtainable it appears that the New York Railroad & Development Company was incorporated on December 6, 1904, under the corporation laws of New Jersey with a capital stock of \$1,500,000, subsequently increased to \$2,000,000 and later decreased to \$500,000 by reducing the par value of each share from \$100 to \$25.

The subscribers of record are Kean Van Cortland & Company, Oakleigh Thorne, Harvey Fisk & Son, Edwin Gould, and O. C. Barber, each paying \$100,000 in cash. The records of this company are very meager, but from such as were available it would seem that its activities were confined to a period of six months, June, 1905, to December, 1905. It appears to have been controlled by William C. Gotshall or, at least, manipulated by him and, before its purchase by Thorne & Perry, was supposed to have a contract to build the New York & Port Chester Railroad. In order therefore to secure a complete control of the New York & Port Chester Railroad Company, Thorne & Perry were induced to buy out the Development Company, and after doing so discovered that no such contract was in existence.

The receipts and expenditures of the company are shown on the following statement:

## Receipts:

|                                    |                   |
|------------------------------------|-------------------|
| Cash from stock subscriptions..... | \$500,000.00      |
| Interest on bank balances.....     | 7,431.23          |
|                                    | <u>507,431.23</u> |

## Expenditures:

|   |                   |
|---|-------------------|
| Purchase of City & County Contract Co. notes..... | \$175,000.00      |
| Real estate.....                                  | 96,322.00         |
| West Chester Townsite Co. bonds.....              | 12,500.00         |
| Legal services.....                               | 5,598.20          |
| Payment of loans.....                             | 1,750.00          |
| Engineering expenses.....                         | 3,727.26          |
| Miscellaneous expenses.....                       | 3,836.90          |
| Insurance.....                                    | 277.63            |
| Taxes.....  | 119.24            |
| Cash turned over to Millbrook Co.....             | 8,500.00          |
|   | <u>307,431.23</u> |
| Balance unaccounted for.....                      | 200,000.00        |

Some time between October 1, 1906, and December 31, 1906, the entire capital stock of the New York Railroad & Development Company was acquired by Oakleigh Thorne and Marsden J. Perry, who paid therefor \$750,000 (see Thorne & Perry), and on May 2, 1907, the company was dissolved and its affairs turned over to the Millbrook Company. (See latter company for details.)

## THORNE &amp; PERRY.

Some time during the month of September, 1906, Mr. Oakleigh Thorne, a banker of New York City, and at that time the president of the Trust Company of America in New York, approached Mr. Charles S. Mellen, then president of the New York, New Haven & Hartford Railroad Company, and told him of the difficulties of the New York, Westchester & Boston and New York & Port Chester Railroad Companies, which are referred to elsewhere. Mr. Mellen verbally assured Mr. Thorne that if he (Thorne) could acquire two-thirds of the stock of both companies the New York, New Haven & Hartford Railroad Company would purchase them and pay the cost plus a commission.

On October 2, 1906, Mr. Thorne stated to a committee of the New York, New Haven & Hartford Railroad Company directors consisting of Charles S. Mellen, J. P. Morgan, William Rockefeller, and George Macculloch Miller that he was in a position to control both the New York, Westchester & Boston and New York & Port Chester Railroad Companies, that he was ready and would like to build the road selected and turn it

over to the New York, New Haven & Hartford Railroad Company at cost and a commission to be agreed upon.

Acting upon the assurances of Mr. Mellen, Mr. Thorne associated himself with Marsden J. Perry, a banker of Providence, R. I., and together they proceeded to acquire control of the securities mentioned. It is quite evident that Mr. Mellen's assurances were approved by the New Haven directors from the fact that on October 19, 1906, the New Haven Company began to supply the funds to Thorne & Perry for the purchase of the securities. In order to keep from the public the New Haven's interest in the matter, arrangements were made for the New Haven to deposit all moneys with J. P. Morgan & Company subject to the demands of Thorne & Perry, who gave their notes to J. P. Morgan & Company for the cash received.

From October 19, 1906, to January 9, 1907, Thorne & Perry received from J. P. Morgan & Company \$8,250,000 in cash, advanced by the New Haven, and during the same period claim to have expended \$7,939,867.97 for the control of the New York, Westchester & Boston and New York & Port Chester Railroad Companies and their affiliated companies, together with miscellaneous expenses incident thereto. Mr. Thorne appears to have been the most energetic person in these transactions and furnished the information upon which the figures quoted above are based, but there are no substantial records in evidence to support the statement. In an interview with Mr. Thorne on April 14, 1914, a request was made for the details of his expenditures as he had stated them when accounting for the moneys he had received from J. P. Morgan & Company. Mr. Thorne replied that he was unable to furnish the information. In support of his position he said that the transactions involved in these deals were all handled through his personal account at the banks and recorded in his personal books, that he had destroyed these books, together with all papers early in January, 1912, by burning them in the furnace at his residence. He further stated that he had destroyed his books because he did not want them around; that his affairs were much involved in the financial panic which occurred in the latter part of 1907, and as soon as he was able to extricate himself from his difficulties he decided to make a new start.

Mr. Thorne remembered in a general way the transactions, but when asked questions relative to specific items, amounts, or dates, he claimed he was unable to name them. Mr. George S. Hansel, who held the position of confidential clerk to Mr. Thorne, was also interviewed and substantiated Mr. Thorne's statement so far as the destruction of the records is concerned. Mr. Hansel said he never was advised of the details by Mr. Thorne, but followed his directions without question.

Every possible source of information was exhausted in the efforts to obtain the information which is absolutely necessary to completely clear up the situation, but without success. The problem, therefore, resolved itself into an analysis of such records as were available, the result of which is reflected on the following statement, upon which will be found the cash received from J. P. Morgan & Company by Thorne & Perry and the expenditures claimed to have been made by them and the expenditures disclosed by the records as having apparently been made.

## Receipts:

|  | <i>Claimed.</i> | <i>Recorded.</i> |
|--|-----------------|------------------|
| Cash received from New York, New Haven & Hartford through J. P. Morgan & Co..... |                 | \$8,250,000.00   |

## Expenditures:

|  |                |                |
|--|----------------|----------------|
| New York, Westchester & Boston bond subscriptions..... | \$5,931,441.07 | \$4,485,689.00 |
| New York & Port Chester R. R.....                      | 940,000.00     | 750,000.00     |
| City & County Contract Co.....                         | 727,500.00     | 937,500.00     |
| New York Railroad & Development Co.....                | 193,000.00     | 821,625.00     |
| City of New York bonds.....                            | 93,879.17      | 93,879.17      |
| Legal services.....                                    | 7,500.00       | 7,500.00       |
| Services civil engineer.....                           | 1,672.73       | 1,672.73       |
| Taxes State of New York.....                           | 9,875.00       | 9,875.00       |
| City & County Contract Co. notes.....                  | 35,000.00      |                |

|  |              |              |
|--|--------------|--------------|
|  | 7,939,867.97 | 7,107,740.90 |
|--|--------------|--------------|

|   |              |
|---|--------------|
| Expenditures claimed by Thorne & Perry..... | 7,939,867.97 |
|---|--------------|

|   |              |
|---|--------------|
| Expenditures as reflected by available records..... | 7,107,740.90 |
|---|--------------|

|                 |            |
|-----------------|------------|
| Difference..... | 832,127.07 |
|-----------------|------------|

The balance of the unexpended cash was turned over to the Millbrook Company.

It will be noted that there is an apparent discrepancy of \$832,127.07 between the amount expended as claimed by Thorne & Perry and the amount expended as reflected by the records, and it is clearly the imperative duty of Mr. Thorne to explain this discrepancy either by substantial records or statements under oath. In addition to this amount, there appears to have been an amount of \$200,000 in the treasury of the New York Railroad & Development Company when Thorne & Perry secured control, which does not seem to be accounted for in view of the fact that when the assets of the company were turned over to the Millbrook Company the records indicate but \$8,500 in cash as being received. This apparent discrepancy should also be explained by Mr. Thorne.

## MILLBROOK COMPANY.

The company was organized on November 5, 1906, with an original capital of \$1,000, which, by unanimous consent of the stockholders, filed on the 10th day of November, 1906, was increased to \$100,000. It was organized upon advice of counsel for the New Haven for the purpose of carrying out the prior arrangements between the New Haven and Messrs. Thorne & Perry, with respect to the purchase of the securities of the New York, Westchester & Boston Railroad Company, the New York & Port Chester Railroad Company, and certain other affiliated companies, and for the construction of a railroad. Messrs. Thorne & Perry's purchases began before the organization of the Millbrook Company, but the exact terms of the arrangement were not reduced to writing until after the making of the contract hereinafter mentioned between the New Haven and the Millbrook Company. Shortly after the incorporation of the latter company Messrs. Oakleigh Thorne, Marsden J. Perry, and W. H. Chesebrough were made directors. Thereupon there was executed its contract with the New Haven with respect to the construction of the railroad and to the purchase of Westchester and Port Chester securities. The stock of the Millbrook Company was owned by Messrs. Thorne & Perry, and in an agreement supplemental to the contract between that company and the New Haven they agreed to aid and assist the Millbrook Company fully to perform and consummate the purposes of such agreement. They further agreed not to sell, dispose of, or encumber the stock of the Millbrook Company or to consent to or permit any increase of the stock without the consent of the New Haven. And in order to protect and support this arrangement, they deposited the certificates of stock of the Millbrook Company with the New Haven, to be held by it as security during the pendency of the agreement, with an option to purchase the stock at par and 6 per cent interest, in case the operation of the contract between the Millbrook Company and the New Haven should be terminated in accordance with its provisions.

From Messrs. Thorne & Perry the company acquired (1) a dominant interest in the stock of the New York, Westchester & Boston Railroad Company, through controlling an underwriting for its construction involving the payment of a large amount of money in consideration of bonds and of stock to be received, and (2) all of the stock of the New York & Port Chester Railroad Company, subject, however, to the carrying out of the terms of a certain contract therefor personally made by Messrs. Thorne & Perry with one William C. Gotshall, the promoter of the Port Chester road. This agreement provided for the purchase of the New York & Port Chester Railroad Company by Thorne & Perry by a payment of \$750,000 in cash, \$2,000,000 par value of stock, and \$100,000 par value of bonds of the New York & Port Chester Railroad Company, or of any other railroad which might be constructed. The cash was paid by Thorne & Perry, but the delivery of the securities was never effected, owing to the inability of Thorne & Perry to determine which line to build, due to the then existing legal obstacles. A suit was instituted by Gotshall to obtain these securities, and on January 21, 1909, a compromise settlement was effected by the payment to Gotshall of \$1,085,935.41 in cash, \$1,000,000 representing the settlement of the agreement and the balance, \$85,935.41, representing real estate and right-of-way along the line of the New York, Westchester & Boston Railroad. The funds to enable the Millbrook Company to make this settlement were advanced by the New Haven.

The Millbrook Company, having succeeded to assets and liabilities of Thorne & Perry, proceeded to comply with the terms of the agreement entered into with the New Haven. The same arrangements for obtaining funds from the New Haven that Thorne & Perry had made were continued by the Millbrook Company, excepting that the notes given to J. P. Morgan & Company were signed by Millbrook Company instead of Thorne & Perry as heretofore.

In addition to the securities and other evidences of expenditures received from Thorne & Perry, the Millbrook Company also received \$456,757.49 in cash, representing the balance of funds received by Thorne & Perry from J. P. Morgan & Company. On February 28, 1907, the company gave a note to J. P. Morgan & Company for \$8,250,000 to take up the notes previously given by Thorne & Perry, and subsequent to that date and including September 25, 1907, they gave other notes to J. P. Morgan & Company aggregating \$2,905,000, for which they received cash.

This cash, with the balance received from Thorne & Perry, was used principally in paying Thorne & Perry the commissions accruing to them under the New Haven agreement, advancing funds to the City & County Contract Company which they now controlled, to enable the Contract Company to proceed with the construction of the New York, Westchester & Boston Railroad in accordance with contractual obligations, and to purchase the remaining outstanding bond subscriptions of the New York, Westchester & Boston Railroad that Thorne & Perry had not acquired.

These transactions took place between January, 1907, and October 31, 1907. On the latter date the New Haven terminated the contract with the Millbrook Company and took direct control of the situation, Thorne & Perry withdrew, and the entire affairs of the Millbrook Company were assumed by the New Haven.

The following statement reflects the receipts and expenditures for the period covered by this investigation, which extends from the date of incorporation to October 31, 1907, inclusive:

## Receipts:

|   |              |
|---|--------------|
| Cash received from Thorne & Perry.....                                  | \$456,757.49 |
| Sale of capital stock.....  | 1,000.00     |
| Interest on bonds owned.....  | 4,750.00     |
| Interest on bank balances.....  | 5,290.88     |
| Cash from New York Railroad & Development Co.....                       | 8,500.00     |
| Cash from rents.....  | 208.33       |
| Cash from New York, New Haven & Hartford through J. P. Morgan & Co..... | 2,905,000.00 |
| Total.....  | 3,381,506.70 |



## Expenditures:

|  |                     |
|--|---------------------|
| Cash advanced to City & County Contract Co.....                  | \$1,642,435.16      |
| New York, Westchester & Boston Railroad bond subscriptions ..... | 395,789.94          |
| Commissions paid to Oakleigh Thorne.....                         | 372,669.22          |
| Commissions paid to Marsden J. Perry.....                        | 372,669.22          |
| Commissions paid to W. H. Chesbrough.....                        | 39,228.32           |
| Loans paid to Oakleigh Thorne.....                               | 73,312.73           |
| Loans paid to Marsden J. Perry.....                              | 73,312.73           |
| Loans paid to Knickerbocker Trust Co.....                        | 50,000.00           |
| Interest on loans—J. P. Morgan & Co.....                         | 39,854.18           |
| Legal services.....  | 71,473.42           |
| Franchise taxes.....   | 4,000.00            |
| Services of civil engineer.....                                  | 9,374.96            |
| Directors' fees.....   | 1,880.00            |
| Miscellaneous expenses.....                                      | 3,875.86            |
| Total.....   | <u>3,149,675.74</u> |
| Cash balance on hand.....  | <u>231,830.96</u>   |

## EXHIBIT B.

### REPORT OF THE EXAMINATION OF ACCOUNTS OF THE RHODE ISLAND COMPANY.

In the year 1893 the United Traction & Electric Company was chartered under the laws of New Jersey and became the owner of the stock of the Union Railroad and the Pawtucket Street Railway companies. In 1899 or 1900 it became the owner of the stock of the Rhode Island Suburban Railway Company.

The par value of the Union Railroad Company's capital stock outstanding at that time was \$2,000,000, and that of the Pawtucket Street Railway Company was \$200,000. The Traction Company advanced to these companies all needed capital for additions and improvements, including the cost of the change from horse to electric power, and became entitled to such additional stock as they might issue. To pay for the stock of these companies and to secure the capital to be advanced for such additions and improvements the Traction Company issued its capital stock to the amount of \$8,000,000 and delivered to the Central Trust Company of New York its collateral trust mortgage dated July 1, 1893, for \$9,000,000, secured by the then and afterwards acquired stock of the Union Railroad and Pawtucket Street Railway companies, and further secured by deposit with it of all but \$25,000 of the \$3,000,000 of mortgage bonds of the Union Railroad Company due July 1, 1912. The Traction Company mortgage shows that \$8,000,000 of these bonds were issued in 1893 to acquire the following securities: 19,341 shares Union Railroad Company, par value, \$1,934,100; 1,276 shares Pawtucket Street Railway Company, par value, \$127,600; 2,998 shares Providence Cable Tramway Company, owned by Union Railroad Company, par value, \$299,800; 2,975 first mortgage bonds of Union Railroad Company, on which no interest accrues, \$2,975,000.

The books of the United Traction & Electric Company were not examined and therefore it is not known at what cost the above securities were acquired. However, Cyril A. Babcock, at one time an officer of the Union Railroad Company, stated verbally to the examiner that the United Traction & Electric Company paid about \$250 per share for the Union Railroad Company capital stock.

The Union Railroad Company was created in 1865 and there were then consolidated into it the following six companies, operated in and about Providence, R. I., viz: Providence & Pawtucket Horse Railroad Company, Elmwood Horse Railroad Company, Providence & Cranston Railroad Company, South Main Street Horse Railroad Company, and Broadway & Providence Railroad Company.

In 1872 the Providence, Pawtucket & Central Falls Railroad Company was consolidated with the Union Railroad Company and in 1895 the Union Railroad Company took over under a 50-year lease the Providence Cable Tramway Company, of whose shares all but \$200, par value, were owned by the Union Railroad Company.

The Pawtucket Street Railway Company was incorporated in 1885 with authority to construct and operate railways in Pawtucket, Lincoln, and Cumberland.

The Rhode Island Suburban Railway Company was incorporated in 1899, constructed in East Greenwich and Warren, and acquired the properties of the Pawtucket Valley Electric Street Railway Company and the capital stock of the Cumberland Street Railway Company amounting to \$70,000 in 1900, and the capital stock of the Barrington, Warren & Bristol Street Railway Company, amounting to \$500,000, the Interstate Consolidated Street Railway Company (in Rhode Island), and the property of the Oakland Beach Branch, so-called, of the New York, New Haven & Hartford Railroad Company.

The Rhode Island Suburban Railway Company issued its capital stock to the amount of \$5,000,000 in the name of the United Traction & Electric Company and pledged and delivered as additional security for the Traction Company mortgage, a mortgage of its own property and franchises to the Union Trust Company of Providence to secure its bonds to the amount of \$5,000,000, a part of which is reserved for the refunding of the outstanding bonds of the Pawtuxet Valley Electric Street Railway Company \$247,200 and of the Cumberland Street Railway Company \$69,000.

In June 30, 1902, according to returns filed with the Railroad Commission of Rhode Island the condition of the following-named companies was:

|                         | Union R. R.<br>Co. | Pawtucket<br>Street Ry. Co. | Rhode Island<br>Suburban Ry.<br>Co. | Total.          |
|-------------------------|--------------------|-----------------------------|-------------------------------------|-----------------|
| Mileage.....            | 141.39             | 25.25                       | 72.43                               | 239.07          |
| LIABILITIES.            |                    |                             |                                     |                 |
| Capital stock.....      | \$9,000,000.00     | \$500,000.00                | \$5,000,000.00                      | \$14,500,000.00 |
| Bonds.....              | 25,000.00          | -----                       | 4,933,200.00                        | 4,958,200.00    |
| Floating debt.....      | 23,748.76          | 7,777.20                    | 3,776.06                            | 35,302.02       |
| Surplus or deficit..... | 390,397.45         | 83,562.80                   | 1,272,436.54                        | 201,523.71      |
| Total.....              | 9,439,146.21       | 591,340.00                  | 9,664,539.52                        | 19,695,025.73   |

<sup>1</sup> Deficit.

The United Traction & Electric Company, at about this time (say previous to May, 1902) became doubtful of its ability to finance the growing capital needs of the above properties, and, as may be inferred from the following letter, sought the aid of the United Gas Improvement Company of Philadelphia, Pa.:

MAY 9, 1902.

Hon. ROYAL C. TAFT, *Providence, R. I.*

My DEAR SIR: I regret very much that I did not have the pleasure of meeting you on Wednesday, when we verbally presented to the committee of shareholders of the United Traction & Electric Company, at their meeting held in New York, a plan or proposition for a lease of the properties controlled by the United Traction & Electric Company to the Rhode Island Company. After a very full discussion of the subject, it was suggested that I present to you, as chairman of the committee, in writing, the proposition then outlined, which I beg to do herewith, with the explanation that the United Gas Improvement Company proposes to subscribe to and pay up in cash the at present authorized \$2,000,000 at par of capital stock of the Rhode Island Company.

The proposition of the United Gas Improvement Company is:

That leases for 999 years shall be made to the Rhode Island Company by the Union Railroad Company, the Pawtucket Street Railway Company, and the Rhode Island Suburban Railway Company, under which leases, together with a contract made with the United Traction & Electric Company, the control and operation of the entire system which is known now as the United Traction & Electric Company's system shall pass to the Rhode Island Company, at the annual rental of an amount which shall be equal to the sum of the interest upon the \$9,000,000, par value, of 5 per cent bonds of the United Traction & Electric Company, the interest upon \$5,000,000, par value, of 4 per cent bonds of the Rhode Island Suburban Railway Company, and a sum equal to 5 per cent upon the \$8,000,000, par value, of capital stock of the United Traction & Electric Company, together with all taxes which shall be assessed or levied upon the leased properties and upon the United Traction & Electric Company, and such reasonable amount as shall be agreed upon to cover the necessary expenses of the maintenance of the organization of the various corporations.

That the lessee shall also agree at its own cost and expense to make all extensions, improvements, and betterments to the leased property which shall become necessary or judicious in its judgment in order to maintain the various plants in good and efficient condition and to meet the demands of the public for transportation. All such improvements, betterments, extensions, etc., to be and remain the property of the lessor, subject to the terms of the lease.

That the United Gas Improvement Company shall guarantee the performance by the lessee of the obligations undertaken by it in the leases, and that such guaranty of the United Gas Improvement Company shall continue until there shall have been spent in extensions, improvements, and betterments of the leased properties the sum of \$4,000,000.

That no part of the \$2,000,000 cash capital of the Rhode Island Company now to be paid in, nor any expenditure of it upon your plant shall be credited against this sum of \$4,000,000 last mentioned.

That the stock of the Rhode Island Company shall be transferred to a corporation of New Jersey under the name of the Rhode Island Securities Company with a total authorized capital stock of \$20,000,000, of which \$12,000,000 shall be issued as full paid to the United Gas Improvement Company when the above named leases and agreements are executed, of which an amount equal at par to 25 per cent of the par value of the stock of United Traction & Electric Company shall be delivered to your shareholders in the proportions of their holdings. The remaining \$8,000,000 of stock will be issued to us as other properties are acquired or leased. The Rhode Island Securities Company will authorize the issue of \$20,000,000 of collateral trust bonds, of which \$5,000,000 will bear 4 per cent interest and have a sinking fund provision of 1 per cent and will be called series A, and the remaining \$15,000,000 will bear 5 per cent and be called series B. Three million five hundred thousand dollars of series A bonds will be delivered to the United Gas Improvement Company in consideration of its cash payment as above of \$2,000,000 and its guaranties described above. The remaining bonds of series A are to be delivered to the United Gas Improvement Company with the balance of the shares of the Rhode Island Securities Company as other properties are acquired or leased. All of series B are to be applied and restricted under and by proper provisions in the trust deed to expenditure upon the properties which will be acquired or leased by the Rhode Island Company.

Herewith inclosed are copies of suggested forms of the various leases and of said contract. The papers submitted substantially embody the proposition outlined above, excepting the guaranties of the United Gas Improvement Company, which can more properly be made the subject of a separate and distinct contract.

Very truly, yours,

THE UNITED GAS IMPROVEMENT COMPANY,  
By THOMAS DOLAN, *President*.

In 1902 Royal C. Taft was a holder of United Traction & Electric Company stock and also connected officially with the following Providence, R. I., companies: President and director Merchants National Bank; vice-president Providence Institution for Savings; director Rhode Island Hospital Trust Company; director New York, New Haven & Hartford Railroad Company.

The proposition of the United Gas Improvement Company was accepted by the United Traction & Electric Company, with the result that a charter was obtained for the Rhode Island Company (organized June 24, 1902), which company leased for a period of 999 years from June 24, 1902, the properties, rights, and franchises of the Union, Pawtucket, and Suburban Railway Companies at the following annual rentals:

|  |           |
|--|-----------|
| Union Railroad Co., \$8 per share on 90,000 shares of stock.....                                 | \$720,000 |
| On 2 shares of Providence Cable Tramway stock, at \$6 per share.....                             | 12        |
| Organization expenses.....   | 100       |
| Pawtucket Street Railway Co., \$6 per share on 5,000 shares of stock.....                        | 30,000    |
| Organization expenses.....   | 100       |
| Rhode Island Suburban Railway Co., \$2 per share on 50,000 shares of stock.....                  | 100,000   |
| Organization expenses.....   | 100       |
| Interest at 4 per cent on Rhode Island Suburban Railway Co. bonds, par value \$4,682,000.....    | 187,280   |
| Interest at 6 per cent on Cumberland Street Railway Co. bonds, par value \$69,000.....           | 4,140     |
| Interest at 5 per cent on Pawtucket Valley Electric Street Railway Co., par value \$247,200..... | 12,360    |
| United Traction & Electric Co., organization expenses.....                                       | 7,550     |
| Total rental.....  | 1,061,642 |

These rentals paid the organization expenses of the several lessor companies as well as those of the United Traction & Electric Company, the interest charges on the bonds of the Rhode Island Suburban Railway Company and its subsidiaries and furnished the United Traction & Electric Company with the funds necessary to pay the 5 per cent interest on its outstanding bonds as well as a dividend of 5 per cent upon its outstanding capital stock of \$8,000,000.

The Rhode Island Company began operations on June 24, 1902, with no owned railroad property, \$2,116,278.34 in cash, of which \$2,000,000 was received from the United Gas Improvement Company as proceeds from the initial issue of 20,000 shares at par, and a floating debt of over \$1,151,000, consisting chiefly of notes payable and personal injury claims.



Subsequently, in July, 1902, the Rhode Island Securities Company was organized under the laws of the State of New Jersey by the United Gas Improvement Company, for the purpose of holding the capital stock of the Rhode Island Company.

Under an agreement dated July 18, 1902, between the Rhode Island Securities Company and the United Gas Improvement Company, the Securities Company's capital stock was increased to \$20,000,000, par value of shares \$100 each, and an issue of \$20,000,000 of first mortgage bonds was also authorized. This issue was divided into \$5,000,000 of series A bonds and \$15,000,000 of series B bonds. On July 18, 1902, the Rhode Island Securities Company acquired the then outstanding capital stock of the Rhode Island Company amounting to \$2,000,000, for which it paid to the United Gas Improvement Company \$12,000,000 par value in capital stock fully paid, and \$3,500,000 of its series A bonds, or a total of \$15,500,000 in face value of capital stock and bonds.

Upon the execution of the leases and agreements referred to in Thomas Dolan's letter of May 9, 1902, to Royal C. Taft, \$2,000,000 par value of the \$12,000,000 of Rhode Island Securities Company capital stock paid to the United Gas Improvement Company or "an amount equal at par to 25 per cent of the par value of the stock of United Traction & Electric Company" was delivered to the Traction Company shareholders "in the proportions of their holdings."

The capital stock of the United Traction & Electric Company outstanding at that time, July 18, 1902, was \$8,000,000, therefore the Traction Company holders received \$2,000,000 par value of the stock of the Rhode Island Securities Company, the market value of which, based upon a bid price of \$17.50 per share, quoted officially by the Providence Stock Exchange in July, 1902, was \$350,000. On this same basis the \$12,000,000 par value of stock issued by the Rhode Island Securities Company to the United Gas Improvement Company had a then market value of \$2,100,000, or a value of \$100,000 in excess of the \$2,000,000 paid in cash for the capital stock of the Rhode Island Company. The records of the Rhode Island Company and supporting canceled checks indicate that \$2,000,000 were deposited with the Union Trust Company of Providence, R. I., to the credit of the Rhode Island Company. A list of the stockholders at April 30, 1902, drawn from the United Traction Electric Company stock ledgers, shows that there were approximately 1,000 shareholders, 33 of whom held blocks of 400 or more shares or slightly over 50 per cent of the total number of shares outstanding. (I. C. C. Exhibit No. 41). It is probably safe to assume that the stockholders whose names appear on this list participated in the distribution, by the United Gas Improvement Company, of the 20,000 shares at par of the Rhode Island Securities Company referred to in the letter of May 9, 1902.

The United Gas Improvement Company therefore received, net, \$10,000,000 par value of capital stock and \$3,500,000 par of series A bonds, or a total par value of \$13,500,000 in securities of the Rhode Island Securities Company, for \$2,000,000 in cash.

Under the terms of agreement dated June 24, 1902, between the United Traction & Electric Company and the United Gas Improvement Company the United Gas Improvement Company agreed to guarantee the performance by the Rhode Island Company of all the obligations undertaken by the Rhode Island Company under all of said leases (Union, Pawtucket, and Suburban companies of June 24, 1902) "until the sum of \$4,000,000 shall have been expended in extensions, additions, and improvements to or upon the properties demised by said leases."

As funds were required by the Rhode Island Company for improvements and extensions they were advanced by the Rhode Island Securities Company on notes of the Rhode Island Company. The Rhode Island Securities Company in turn secured the necessary funds from the United Gas Improvement Company through the issuance of its first-mortgage 35-year 5 per cent collateral trust bonds, known as Series B. The Rhode Island Company secured \$3,381,000 in this manner, in payment of which it

issued its capital stock to the par value of \$3,381,000 to the Rhode Island Securities Company and took up the notes formerly issued.

The Rhode Island Company Exhibit No. 1, filed in docket 4845, shows that between August 20, 1903, and July 2, 1906, that sums aggregating \$3,381,000 were secured from the Rhode Island Securities Company. Under this provision of the agreement the Rhode Island Company expended up to September 1, 1905, \$3,955,603.92; and during the year 1906, expended \$1,010,703.33; or a total expenditure of \$4,966,307.25. An analysis of the "Certificates of expenditures" made over the signature of Thomas Dolan, president of the United Gas Improvement Company, and filed as I. C. C. Exhibit No. 43, contains a list of these items of expenditure, aggregating slightly over \$4,966,000. The majority of these items of expenditure were verified by comparison with the ledger of the Rhode Island Company and found to be substantially in agreement. However, at this late date it is not possible to definitely establish, from the records available, whether any portion of these expenditures cover ordinary maintenance or replacements properly chargeable to operating expenses.

While the writer has nothing authentic on the subject it is understood that the United Gas Improvement Company was desirous of disposing of its trolleys in the state of Rhode Island because it had not succeeded in getting control of the gas and electric companies in Providence, the acquisition of which would have been an important factor in bringing about more economical operating costs for the property as a whole. That the United Gas Improvement Company did not succeed in acquiring these other properties is evidenced by the fact that the par value of capital stock amounting to \$8,000,000 set aside for that purpose were cremated, along with other securities, on December 31, 1906 (see I. C. C. Exhibit 45, sheet 14), after the trolleys were sold to the New Haven Company.

On August 1, 1906, prior to the New Haven's entrance into the field of Rhode Island trolleys, the par value of the outstanding capital stock of the Rhode Island Company was \$5,381,000, paid in in cash.

Correspondence filed under Exhibit I. C. C. No. 50 indicates that in March, 1906, New York, New Haven & Hartford Railroad Company sought to purchase the capital stock of the Rhode Island Company. The New Haven Company was unable to purchase this stock directly, the stock being owned by the Rhode Island Securities Company, which company had pledged the stock as collateral security under its own issue of bonds.

In the spring of 1906, C. S. Mellen, president of the New Haven Company, and Randall Morgan, vice president of the United Gas Improvement Company, which owned the Rhode Island Company, through the medium of the Rhode Island Securities Company, met and conferred from time to time regarding the purchase by the New Haven of the Rhode Island trolleys. On April 2, 1906, President Mellen wrote to Randall Morgan in part as follows:

However, I appreciate your position. You have something to sell which we desire to buy, and my own position at our last interview was that if this was substantially your ultimatum I was bound to take it up with my people, present it to them, and have them consider whether or no they could afford to lift the present burden for the results in ensuing years.

A letter written under date of April 3, 1906, by Randall Morgan to C. S. Mellen states that:

The matter of the pars of the stock has been complicated by the unfortunate bidding for the shares of both companies, a bidding which I have endeavored my best to run down and to stop, but which I am unable to uncover and terminate and which I can only explain on the ground that the Connecticut negotiation has been so prolonged that of necessity people have heard something of the fact that we were talking together, which has produced the movement in the Connecticut shares and which in its turn has caused people to speculate in the Rhode Island stock.

Of course there is a natural reason for the increase in the price of these two stocks, and that is that so many people know how well the companies are doing, how much their earnings have increased, and how much their operating expenses have been reduced.

In Exhibit I. C. C. No. 42 there is given a list of the Providence (R. I.) Stock Exchange official quotations for Rhode Island Securities Company capital stock. During July, 1902, a bid price of \$17.50 per share was quoted. On August 20, 1902, the bid price quoted was \$23 per share. Between the period of July 1, 1906, and December 17, 1906, during which time negotiations were under way for the purchase of the Rhode Island trolleys by the New Haven Company, the bid and asked prices had risen, respectively, from \$31 to \$33 per share to \$68 to \$75 per share. The holders of the Rhode Island Securities Company's stock eventually received \$80 per share. The income account of the Rhode Island Company shows that no dividends had been declared between 1903 and 1908, and that the net income for each of the following fiscal years ending June 30, was:

| Year.     | Loss.        | Profit.      |
|-----------|--------------|--------------|
| 1903..... | \$303,419.95 | .....        |
| 1904..... | 76,830.22    | .....        |
| 1905..... | .....        | \$127,613.96 |
| 1906..... | .....        | 344,806.54   |
| 1907..... | .....        | 139,290.22   |
| 1908..... | .....        | 178,420.89   |

The aggregate of which, with certain adjustments, gives a surplus at the end of June 30, 1908, of but \$397,067.84.

On May 25, 1906, C. S. Mellen wrote to Randall Morgan to the effect that inasmuch as it was impossible to separate these two properties (the Connecticut and Rhode Island trolleys) the New Haven Company were of the opinion that it would be unwise for them to take the properties in view of the present conditions prevailing in financial circles to extend their credit to the extent necessary to handle them both; therefore, as you offer no alternative, we are obliged to consider the negotiations closed.

On August 20, 1906, C. S. Mellen wrote to Senator Nelson W. Aldrich, under personal cover, as follows:

MY DEAR SENATOR: Am I wrong in the impression that I was to hear from you again regarding the matter we discussed in our last interview before taking any action?

It was my understanding that you were to get some definite assurance that was to be transmitted to me which I could use as a basis for presentation to my directors for action, and I handed you a copy of the trust that has been provided for the handling of this and other similar matters, and since my return to my office sent you a copy of the contract by which the New York, New Haven & Hartford Railroad Company becomes the guarantor of all the preferred shares that were to be issued by said trust. I have taken no action on the understanding I was to hear from you further, but the delay has been so long I am in doubt whether or no there is not some misunderstanding as result of our interview.

The New Haven Company later on decided to take the Rhode Island trolleys. The correspondence filed does not indicate what brought about the change in the ultimatum of May 25, 1906.

A memorandum dated Friday, November 16, bearing initials of C. S. M., contains in part the following:

Saw Mr. Morgan at his office and explained to him the proposed lease of the Connecticut Railway & Lighting Company's lines and the purchase of the stock and indebtedness of the Rhode Island Securities Company. He expressed himself as satisfied with the proposition and assured me of his approval.

One month later, on December 16, 1906, the New York, New Haven & Hartford Railroad Company entered into an agreement with the United Gas Improvement Company for the purchase of 61,200 shares of the Rhode Island Securities Company, \$3,352,000 at par of series A bonds, and \$3,381,000 at par of series B bonds and certain bills payable, with accrued interest on same at 5 per cent per annum to August 1, 1906, aggregating \$1,153,313.26. The United Gas Improvement Company agreed that it would endeavor to procure the sale to the railroad company of the remaining 58,000

shares of the capital stock of the Rhode Island Securities Company. The firm of J. & W. Seligman & Company, bankers of New York, were designated, in the agreement, as the depository to arrange for the issuance of securities guaranteed by the New Haven Company in exchange for the Rhode Island Securities Company stocks and bonds surrendered exclusive of the bills payable. The vendors were to deposit to or for the account of the railroad company the sum of \$10 per share for each share surrendered.

The sale of the Rhode Island Securities Company's stock, bonds, and bills payable was made as of August 1, 1906, and it was agreed that:

On May 1, 1907, the railroad company will deliver to the depository the sum of \$574.09 in cash and the 4 per cent 50-year gold coupon debentures of the Providence Securities Company dated May 1, 1907, guaranteed as to principal and interest by the indorsement thereon of the guaranty of the New York, New Haven & Hartford Railroad Company, each of the face value of \$1,000 with interest payable November 1, and May 1, of each year, in New Haven and New York, and principal payable in New Haven May 1, 1957, subject, however, to call on or after May 1, 1917, at 105 and accrued interest.

The Providence Securities Company was incorporated on March 14, 1883, in Connecticut, as the New England Loan & Trust Company, and name changed as at present on January 11, 1907. Capital stock authorized was \$250,000; the capital stock \$50,000 at par value \$100 per share outstanding at this time is owned by the New York, New Haven & Hartford Railroad Company.

Pursuant to the terms of the agreement the New York, New Haven & Hartford Railroad Company issued and delivered \$19,888,700 face value of Providence Securities Company debentures and \$174.09 in cash in exchange for the following:

|  |                 |
|--|-----------------|
| Rhode Island Securities Co., capital stock, 119,773 shares, par value..... | \$11,977,300.00 |
| Series A bonds, par value.....   | 3,352,000.00    |
| Series B bonds, par value.....   | 3,381,000.00    |
| Bills payable.....   | 1,153,313.26    |
| Bond interest amounting to.....  | 25,260.83       |
| Aggregating.....   | 19,888,874.09   |

There was subsequently purchased 112 shares of the Rhode Island Securities Company stock at a cost of \$11,020, which was paid for in debentures of the Providence Securities Company and \$720 in cash. Through this exchange and the subsequent purchases the Providence Securities Company came into possession of 119,885 shares of the total issue of 120,000 shares of Rhode Island Securities Company stock then outstanding. The Providence Securities Company was apparently brought into existence for the sole purpose of taking over the Rhode Island Securities Company.

An attempt was made to ascertain who the stockholders of the Rhode Island Securities Company were at the time of and previous to the exchange of that company's securities for the securities issued by the New Haven Company. No definite information in this direction could be obtained inasmuch as the stock ledgers of the Rhode Island Securities Company were either destroyed or lost, as testified to by Cornelius S. Sweetland, president of the Providence Banking Company, the transfer agent for the Rhode Island Securities Company.

A list of stockholders of the Rhode Island Securities Company as they appeared at the close of December 11, 1906, made from a list on file in the offices of the New Haven Company at New Haven, Conn., and filed with I. C. C. Exhibit No. 49, shows that the 10 shareholders who held over 75 per cent of the stock, in blocks of 900 or more shares, were:

|  | Shares. |
|--|---------|
| James Ball, Philadelphia, Pa.....      | 11,902  |
| S. T. Bodine, Philadelphia, Pa.....    | 12,234  |
| Charles Brayton, Providence, R. I..... | 1,062   |
| Walton Clark, Philadelphia, Pa.....    | 12,933  |
| Samuel P. Colt, Providence, R.I.....   | 1,525   |
| Ernest H. Cook, New York, N. Y.....    | 933     |
| Thomas Dolan, Philadelphia, Pa.....    | 20,000  |



|  | Shares. |
|--|---------|
| Lewis Lillie, Philadelphia, Pa.....                | 12,933  |
| Randall Morgan, Philadelphia, Pa.....              | 15,000  |
| Frank Waitz, New York, N. Y. (20 Wall Street)..... | 1,800   |
| Total.....   | 90,322  |
| Total outstanding.....                             | 120,000 |

The balance of the stock was held in small blocks by approximately 375 shareholders.

A list of "Parties who deposited Rhode Island Securities Company stock with J. & W. Seligman & Company (irrespective of names in which the certificates stood of which we have no record)" furnished by J. & W. Seligman & Company and filed with I. C. C. Exhibit No. 49, contains among others the following names and the number of shares deposited:

|                                | Shares. |
|--------------------------------|---------|
| United Gas Improvement Co..... | 61,200  |
| J. & W. Seligman & Co.....     | 11,976  |
| William F. Sheehan.....        | 13,834  |
| Marsden J. Perry.....          | 6,450   |
| Henry Seligman.....            | 100     |
| Charles R. Brayton.....        | 1,000   |
| Thomas Dolan.....              | 2,976   |
| Samuel P. Colt.....            | 1,530   |
| A total of.....                | 99,066  |

or slightly over 83 per cent of the total issue of 120,000 shares. The remaining shares were deposited by approximately 180 shareholders, 30 of whom deposited with the Seligman Company and 150 with the Union Trust Company of Providence, R. I. The majority of these shares was deposited with J. & W. Seligman & Company during December, 1906, and January, 1907.

Attention is directed to the fact that in many instances the names of "parties who deposited Rhode Island Securities Company stock with J. & W. Seligman & Company" do not conform to the names of persons, firms, or companies listed as stockholders at December 11, 1906. No opinion is here expressed, as to whether any significance attaches to these changes, still it is to be noted that the former lieutenant governor of New York, William F. Sheehan, whose name is given as a "party" depositing 13,824 shares, is not contained in the list of December 11, 1906. Whatever profit there was must have inured to the benefit of the owners of Rhode Island Securities Company stocks and bonds surrendered for the debentures of the Providence Securities Company.

Under the terms of the sale the United Gas Improvement Company became entitled to \$12,853,000 par value of Providence Securities Company debentures for the following securities surrendered and cash deposited:

|                                |             |
|--------------------------------|-------------|
| Capital stock, par value.....  | \$6,120,000 |
| Series A bonds, par value..... | 3,352,000   |
| Series B bonds, par value..... | 3,381,000   |
|                                | 12,853,000  |
| Plus cash deposit.....         | 612,000     |
| Or a total of.....             | 13,465,000  |

in par value of securities and cash surrendered for \$12,853,000 par value of Providence Securities Company debentures. Sheet No. 1 of I. C. C. Exhibit No. 49 shows that \$10,000,000 par of Providence Securities Company debentures bonds are fully registered in the name of the United Gas Improvement Company. Some idea of the market value of the bonds may be gained by referring to Exhibit I. C. C. No. 42 for a list of the bid and asked prices of Providence Securities Company bonds for the period August 3, 1907, to April 17, 1913. The asked price in August, 1907, was 85 and the bid price (no asked price was quoted) in April, 1914, was 55, with sales of 13 bonds during that month.

Since the New Haven Company had acquired the stock of the Rhode Island Securities Company through the medium of the Providence Securities Company there no longer appeared to be any necessity for the Rhode Island Securities Company; hence the Rhode Island Securities Company was dissolved in October, 1907.

The Providence Securities Company held at that date stock and other evidence of indebtedness of the Rhode Island Securities Company with accrued interest thereon amounting to \$19,899,894.09, which was further increased by new notes amounting to \$531,565, accrued interest of \$295,148.32, and advances of \$4,350, or in all \$20,730,-957.41 reflected by the books as its investment in the Rhode Island Securities Company.

At the time of the dissolution of the Rhode Island Securities Company it was apparent that there were not sufficient assets to liquidate the outstanding liabilities in full. The board of directors of that company voted to distribute the assets of the company among the stockholders at the rate of \$80 for each share of stock outstanding. Of this distribution the Providence Securities Company received the following:

|  |               |
|--|---------------|
| Notes of the Rhode Island Co., amounting to .....  | \$392,331.24  |
| Note of the New York, New Haven & Hartford Railroad Co. ....   | 7,500,000.00  |
| 30,830 shares of the capital stock of the Rhode Island Co. at an average price of \$338.89 per share, or ..... | 10,447,942.83 |

|                                |               |
|--------------------------------|---------------|
| Or a total book value of ..... | 18,340,274.07 |
|--------------------------------|---------------|

less payment by check for \$6,836.66, and emerged with a loss of \$2,397,520. The Providence Securities Company disposed of this amount by charging \$98,795.25 to income on securities, \$338,901.38 to profit and loss, and \$1,959,823.37 to the cost of the stock of the Rhode Island Company. An amount of \$8,712.70 representing further losses was also charged to the investment in the stock of the Rhode Island Company.

On October 31, 1907, the New York, New Haven & Hartford Railroad Company transferred to the Providence Securities Company, 22,980 shares of Rhode Island Company capital stock and received therefor its note of \$7,500,000, held by the Providence Securities Company. The Providence Securities Company was therefore in possession of 53,810 shares of the Rhode Island Company capital stock acquired at an average cost of \$370.126 per share, or a total cost of \$19,916,478.90. The par value of this stock is \$5,381,000 and represents \$2,000,000 in cash paid in on June 24, 1902, by the United Gas Improvement Company and \$3,381,000 in cash advanced to the Rhode Island Company, prior to July, 1906, by the United Gas Improvement Company through the Rhode Island Securities Company.

Under the terms of the agreement of December 19, 1906, the Providence Securities Company received \$10 per share from each shareholder of the Rhode Island Securities Company which were deposited at the time of the exchange of stock for debentures of the Providence Securities Company. The aggregate of such deposits amounted to \$1,198,790 and was intended to provide the Providence Securities Company with a fund out of which to meet any possible deficiency in the income from operation of the Rhode Island Company during the ensuing five years. This reserve fund was subsequently consumed (in about 18 months) by interest and other charges.

On January 31, 1908, the New England Navigation Company, a New Haven company subsidiary, became the successor of the Providence Securities Company, buying the Providence Securities Company's assets and assuming all of the latter's liabilities, except the capital stock. On May 18 of the same year the New England Navigation Company transferred its holdings of 53,810 shares of the Rhode Island Company capital stock carried at a book cost of \$19,916,478.90, to the New York, New Haven & Hartford Railroad Company and received in exchange \$22,944.50 in cash and securities and notes with accrued interest, amounting to \$19,893,534.50.

The issue of \$19,899,000 of Providence Securities Company debentures is still a liability of the New England Navigation Company.

During the period between January, 1908, and June 24, 1910, the Rhode Island Company increased its outstanding capital stock from \$5,381,000 to \$9,685,500. The increase in stock was issued at par from time to time to the New York, New Haven & Hartford Railroad Company in payment of notes payable of, and cash advances to, the Rhode Island Company.

The entire capital stock of the Rhode Island Company, par value \$9,685,500, is owned by the New York, New Haven & Hartford Railroad Company and was carried on the books of that company as of June 30, 1913, at \$24,352,336.41 or \$251.43 per share.

On June, 1907, the Rhode Island Company purchased from the New York, New Haven & Hartford Railroad Company, the Woonsocket Street Railway Company, the Providence & Burrillville Street Railway Company, and the Columbian Street Railway Company.

On June 30, 1911, the Rhode Island Company leased the Sea View Railroad Company and the Providence & Danielson Railway Company for a period of 999 years and the Narragansett Pier Railroad Company for 99 years at the following yearly rentals:

|                                     |  |  |         |
|-------------------------------------|--|--|---------|
| Sea View Railroad Co.:              |  |  |         |
| \$1 per share on 7,000 shares.....  |  |  | \$7,000 |
| 5 per cent on \$600,000 bonds.....  |  |  | 30,000  |
| Providence & Danielson Railway Co.: |  |  |         |
| \$1 per share on 10,000 shares..... |  |  | 10,000  |
| 5 per cent on \$600,000 bonds.....  |  |  | 30,000  |
| Narragansett Pier Railroad Co.:     |  |  |         |
| \$4 per share on 1,338 shares.....  |  |  | 5,352   |
| 4 per cent on \$70,000 bonds.....   |  |  | 2,800   |
| Total.....                          |  |  | 85,152  |

Which, together with the yearly rentals of \$1,061,642, detailed on pages 6 and 7 of this report, make a total annual fixed charge of \$1,146,794 for a total single-track mileage of 259.04 miles or a yearly rental of \$4,427 per single-track mile.

During the New Haven's ownership or control there has been paid to it the following dividends on Rhode Island Company capital stock:

| Year ending June 30— | Number of shares. | Rate per share. | Amount.   |
|----------------------|-------------------|-----------------|-----------|
| 1909.....            | 85,104            | \$5             | \$425,520 |
| 1910.....            | 85,104            | 6               | 510,624   |
| 1911.....            | 96,855            | 6               | 581,130   |
| 1912.....            | 96,855            | 3               | 290,565   |
| 1913.....            | 96,855            | 6               | 581,130   |
| Total.....           |                   |                 | 2,388,969 |

The surplus of the Rhode Island Company at June 30, 1913, was \$1,129,528.42; of this amount \$600,000 represents a credit created by capitalizing the future earnings of the Interstate Consolidated Street Railway to an amount of \$500,000 and the Attleboro Branch Railroad at \$100,000. The earnings so capitalized were sold to the New England Investment & Securities Company for \$600,000 par value of its 15-year gold notes dated April 1, 1909. Those two companies are now being operated by a Massachusetts company controlled by the New England Investment & Securities Company through stock ownership.

As has been stated, the New Haven Company is carrying the Rhode Island Company capital stock on its books at \$24,352,336.41, in part payment of which there were issued originally \$19,899,000 in par of Providence Securities Company 4 per cent debenture bonds, due May 1, 1957, guaranteed as to principal and interest by the New York, New Haven & Hartford Railroad Company. On the books of the New

England Navigation Company (the company which assumed the said liability of \$19,899,000) there was charged to income account as interest on these Providence Securities Company's bonds the following amounts:

Year ending June 30—

|            |           |
|------------|-----------|
| 1908.....  | \$331,650 |
| 1909.....  | 795,960   |
| 1910.....  | 795,960   |
| 1911.....  | 795,960   |
| 1912.....  | 795,960   |
| 1913.....  | 795,960   |
| Total..... | 4,311,450 |

The New York, New Haven & Hartford Railroad Company subsequently acquired 43,045 shares of the Rhode Island Company capital stock at par previous to July, 1910, and predicated on the theory that bonds or other evidences of indebtedness, similar in character to the Providence Securities Company debentures, had been issued to acquire that stock, there should be added interest on the \$4,304,500 subsequently invested at various periods in the Rhode Island Company stock, which figured at the rate of 4 per cent per annum would amount to \$770,810, making a total loss, or charge, to the New Haven system's income of \$5,082,260, against which could be credited the dividends of \$2,388,969, received from the Rhode Island Company, the difference \$2,693,291 reflecting the loss in income to the New Haven system during the period to June 30, 1913, of their control of the Rhode Island trolleys.

Inasmuch as the guaranty fund of \$1,198,790 contributed by Rhode Island Securities Company shareholders has been consumed in interest charges, that amount may be fairly considered as an additional loss to be added to the loss previously stated, namely, \$2,693,291, so that the total net loss to the New Haven Company on the investment in the Rhode Island Company would amount to \$3,892,081, or slightly over \$648,680 per annum for a period of approximately six years.

Having considered the approximate yearly loss to the New Haven on its investment in the Rhode Island Company, it will be interesting to note that the Rhode Island Company, during the year ending June 30, 1913, paid out in rentals for leased lines \$1,138,944 (exclusive of organization expenses of the lessor companies and United Traction & Electric Company) on a capitalization of \$22,602,200; also a dividend of \$6 per share amounting to \$581,130 on 96,855 shares of its capital stock, par value \$9,685,500, or a total rental and dividend payment of \$1,720,074, equivalent to 5.327 per cent on capital obligations of \$32,287,700, and in addition carried a credit balance of \$88,920.71 from operations for the year to surplus.

Applied to a combination of the lessor companies' capitalization of \$22,602,200 on which rental is paid, and the book value of \$24,353,300 of the Rhode Island Company capital stock to the New Haven Company, the rental and dividend of \$1,720,074 would be equivalent to a return of 3.684 per cent.

Assuming that the properties have been adequately maintained, efficiently operated, and not overcapitalized these figures indicate that the Rhode Island trolleys themselves as an independent system, and eliminating for the time being the loss to the New Haven Company, are capable of earning a moderately reasonable return on their capitalization.

Appended hereto as a matter of information is a copy of that section of the report to the joint board on the valuation of the New York, New Haven & Hartford Railroad Company, under date of February 15, 1911, by George F. Swain, LL.D., M. Am. Soc. C. E., engineer in charge, relating to the Rhode Island Company.



## REPORT OF THE JOINT COMMISSION ON THE NEW YORK, NEW HAVEN &amp; HARTFORD RAILROAD CO., 1911.

*The Rhode Island Company* (Schedule I).—This company operates, through ownership or under lease, Rhode Island trolley lines, with a total length, computed as single track, of 320.58 miles. The companies owned are as follows: Woonsocket Street Railway Company, Columbian Street Railway Company, Providence & Burrillville Street Railway Company.

The companies leased are as follows: Union Railroad Company, Rhode Island Suburban Railway Company, Pawtucket Street Railway Company. The term of the leases is 999 years.

The interest and rentals on these leased properties amount to \$1,061,642 per annum. The New Haven owns all the capital stock of the Rhode Island Company, and the latter has no other capital liability.

The outstanding stock is as follows:

|  |                |
|--|----------------|
| 96,855 shares, par value \$100.....                      | \$9,685,500.00 |
| 96,855 shares, book value to the New Haven \$250.07..... | 24,220,978.90  |

The gross earnings and the net income over all charges have been as follows for the past four years, the amount for 1907 being taken from Poor's Manual:

|           | Gross earnings. | Net income. |
|-----------|-----------------|-------------|
| 1907..... | \$3,859,715.00  | \$98,814.00 |
| 1908..... | 4,194,503.23    | 178,420.89  |
| 1909..... | 4,160,785.27    | 469,206.85  |
| 1910..... | 4,440,809.12    | 573,565.33  |

The company only charged to maintenance, however, about 13 per cent in the year ending June 30, 1910, whereas 20 per cent is generally considered necessary. This may have been all that was necessary for this year, considering the large amount recently spent to improve the property, but if we charge an additional 6 per cent of the gross earnings to a maintenance fund the net earnings will be reduced to about \$300,000. This would give a little over 3 per cent on the capital stock, and would make its value \$67 per share, if capitalized at 4½ per cent, which would make the total value of the New Haven stock \$6,489,285.

The matter may be considered from another point of view.

|   |                |
|---|----------------|
| The appraised value or cost of reproduction new, June 30, 1910, of the properties owned is..                                    | \$1,719,831.33 |
| The amount spent by the New Haven for betterments on leased properties since the execution of the lease, June 24, 1902, is..... | 7,834,574.37   |

|  |              |
|--|--------------|
| Since these betterments are recoverable in case of termination of lease for other cause than default of lessee, they may practically be considered the property of the lessee, not being among assets of the property leased, and the total physical value in the property owned by the New Haven may be taken to be the sum of these, or..... | 9,554,405.70 |
| The balance sheet shows an excess of working assets above physical property over liabilities of.....   | 818,328.22   |

|  |               |
|--|---------------|
| Making a total value to the New Haven of.....  | 10,372,733.92 |
| or something above the par value of the stock. |               |

The excess of working assets is found from the balance sheet, as follows:

|   |                |
|---|----------------|
| Securities owned:   |                |
| 10,141 shares United States Traction Co. stock, at \$100.....                 | \$1,014,100.00 |
| \$106,000 Union Traction Electric Co. 5 per cent bonds, at 104.....           | 110,240.00     |
| \$3,000 Rhode Island Suburban Co. first-mortgage 4 per cent bonds, at 87..... | 2,610.00       |
|   | 1,126,950.00   |
| Cash.....   | 492,514.92     |

## Marketable securities:

|   |              |
|---|--------------|
| 1,479 shares New York, New Haven & Hartford Railroad (omitted from consideration here and treated as New Haven treasury stock)..... |              |
| 130 shares Union Trust Co. voting certificates, at 150.....   | \$19,500.00  |
| Union Trust Co. contingent certificates.....  | 28,215.42    |
| 5 shares Norton & Taunton Street Railway Co.....  |              |
| Vanity Fair Amusement Co.....   |              |
|   | 47,715.42    |
| Miscellaneous accounts receivable.....  | 82,804.00    |
| Balance due from agents and conductors.....   | 21,313.42    |
| Materials and supplies.....   | 367,845.70   |
| Deferred debit items.....   | 285,743.81   |
|   | 2,424,887.27 |
| Less:   |              |
| Working liabilities.....  | \$465,214.88 |
| Accrued liabilities.....  | 18,414.85    |
| Deferred credit items.....  | 61,784.00    |
| Reserve for equipment leased.....   | 1,061,145.32 |
|   | 1,606,559.05 |
|   | 818,328.22   |

There is still another point of view which may be taken regarding this property. The leased lines were not appraised for this report, but taking the appraisal of Westinghouse, Church, Kerr & Company, as adjusted by Price, Waterhouse & Company to June 30, 1908, the depreciated values were as follows:

|  |                 |
|--|-----------------|
| Property owned.....  | \$1,597,777.04  |
| Property leased.....   | 18,292,614.27   |
|  | \$19,890,391.31 |
| To the above add the betterments from June 30, 1908, to June 30, 1910..... | 251,084.66      |
|  | 20,141,475.97   |

Making a total physical valuation, June 30, 1910, of say.....

Using this value, the balance sheet would stand about as follows:

## ASSETS.

|  |                 |
|--|-----------------|
| Total physical property.....                         | \$20,141,475.97 |
| Securities owned.....                                | 1,126,950.00    |
| Current liabilities paid under leases.....           | 979,275.22      |
| Working assets:                                      |                 |
| Cash.....  | 492,514.92      |
| Marketable securities.....                           | 47,715.42       |
| Miscellaneous accounts receivable.....               | 82,804.00       |
| Balance due from agent and conductors.....           | 21,313.42       |
| Materials and supplies.....                          | 367,845.70      |
| Deferred debit items.....                            | 285,743.81      |
|  | 23,545,638.46   |
| Total assets.....                                    | 23,545,638.46   |
| Less:  |                 |
| Working liabilities.....                             | \$465,214.88    |
| Accrued liabilities.....                             | 18,414.85       |
| Deferred credit items.....                           | 61,784.00       |
| Reserve for equipment leased.....                    | 1,061,145.32    |
|  | 1,606,559.05    |
| Net value of property represented by securities..... | 21,939,079.41   |

The securities outstanding against properties leased are the following:<sup>1</sup>

|  |                  |
|--|------------------|
| 90,000 shares Union Railroad Co., par \$100.....                       | \$9,000,000      |
| 5,000 shares Pawtucket Street Railway Co., par \$100.....              | 500,000          |
| 50,000 shares Rhode Island Suburban Street Railway Co., par \$100..... | 5,000,000        |
| 2 shares Providence Cable Tramway Co., par \$100.....                  | 200              |
| \$4,682,000 Rhode Island Suburban fours.....                           | 4,682,000        |
| 247,200 Pawtuxet Valley Electric Street Railway fives.....             | 247,200          |
| 69,000 Cumberland Street Railway Co. sixes.....                        | 69,000           |
|  | <hr/> 19,498,400 |

Deducting the above par value of securities from net assets leaves a sum of \$2,440,679 for the stock of the Rhode Island Company.

According to the general principles laid down in the introduction to this report, however, the cost of reproduction new should be used as a basis, and not the depreciated value. The cost of reproduction new will be at least 20 per cent above the depreciated value, so that on this basis about \$3,978,000 should be added, making the value of the stock \$2,440,679 plus \$3,978,000, or \$6,418,679, or almost exactly what was obtained on the basis of earnings.

It may be objected that the above securities should not be taken at par, but at some market values based on income. These values might be taken so as to leave no value for the stock. The answer to this is that if a value above par is to be taken for the underlying securities, then the earning power of the property, above charges, should be taken as a measure of the value of the stock. The earning power, as already explained, gives a value of \$67 per share.

From four different points of view we thus get the value of Rhode Island Company stock, as follows:

|   |             |
|---|-------------|
| From earnings.....  | \$6,489,285 |
| From appraised value of property owned and betterments on leased lines.....     | 10,372,734  |
| From depreciated value of all property, less outstanding securities.....        | 2,440,679   |
| From cost of reproduction new of all property, less outstanding securities..... | 6,418,679   |

The value of the Rhode Island Company stock is thus seen to be quite uncertain. However, when it is considered that the lines have a mileage of 320 miles of single track, serving the second largest city in New England; that the earnings are increasing; that the property has been put in excellent condition; and that the leases are for a very long term, it seems probable that the ultimate value of the property will be great. For the purposes of this report, which is designed to be very conservative, however, the value of these shares is placed at \$6,000,000, or about \$62 a share; that is to say, about one-fourth the cost to the New Haven.

<sup>1</sup> There are no other securities outstanding which are a lien on the property. There are \$254,000 outstanding bonds of the Providence & Burrillville Street Railway, but against these funds of equal amount have been deposited with the Rhode Island Hospital Trust Company for redemption.

## EXHIBIT C.

### REPORT OF EXAMINATION OF ACCOUNTS OF THE BOSTON RAILROAD HOLDING COMPANY.

*History and organization.*—The Boston Railroad Holding Company was “incorporated under the provisions of chapter 519 of the acts and resolves of Massachusetts for the year 1909 for the purpose of acquiring and holding the whole or any part of the capital stock, bonds, and other evidences of indebtedness of the Boston & Maine Railroad Company.”

The incorporators were Walter C. Baylies, Robert M. Burnett, and Frederick C. Dumaine, who served as follows: Frederick C. Dumaine, president, June 29, 1909, to September 19, 1911; Walter C. Baylies, vice president, June 29, 1909, to September 19, 1911; Robert M. Burnett, treasurer, June 29, 1909, to September 19, 1911.

At a directors' meeting July 14, 1909, the Old Colony Trust Company was appointed transfer agent and registrar of transfers. At a meeting of the directors held April 1, 1910, the American Trust Company was appointed registrar and the Old Colony Trust Company was appointed transfer agent.

“New Haven” officers were elected to the board of directors of the Boston Railroad Holding Company in September, 1911. (For a complete list of officers and directors, see I. C. C. Exhibit No. 46, sheet 34.)

*Capital stock, common.*—Capital stock to the par value of \$100,000 was issued on June 29, 1909, for cash, but the holding company's books do not show from whom the cash was received. The books of the New York, New Haven & Hartford Railroad Company show that \$100,000 par value of Boston Railroad Holding Company stock was acquired on July 14, 1909. On October 6, 1909, the New York, New Haven & Hartford Railroad Company received \$1,649,200 par value of holding company capital stock in part payment for 109,948 shares of Boston & Maine Railroad Company common stock, and \$1,357,300 par value of common stock was issued April 29, 1910, on account, to the New York, New Haven & Hartford Railroad Company in settlement of bills payable. These separate issues of common stock were authorized at stockholders' meetings held June 29, 1909, October 12, 1909, and February 14, 1910, respectively.

The capital stock outstanding at June 30, 1913, was 31,065 shares at \$100 each; total par value, \$3,106,500, all of which was owned by the New York, New Haven & Hartford Railroad Company and carried on its books at par. A complete list of the stockholders, and the movement of the stock certificates, are contained in I. C. C. Exhibit No. 47, schedule 1, sheets 1 to 8, inclusive, which also shows that, with the exception of qualifying shares in the names of directors, the remaining certificates were issued in the name of the New York, New Haven & Hartford Railroad Company. (I. C. C. Exhibit No. 46, sheet 5.)

*Capital stock—Preferred (nonvoting).*—The preferred capital stock outstanding at June 30, 1913, was 272,939 shares, par value \$100 each; total par value, \$27,293,900. The New York, New Haven & Hartford Railroad Company owns 244,939 shares, which are carried on its books at par. The balance, 28,000 shares in small blocks is held by the public. (I. C. C. Exhibit No. 46.)

Preferred stock to par value of \$20,012,000 was issued on January 10, 1911, to the New York, New Haven & Hartford Railroad Company in exchange for Boston Railroad Holding Company bonds of like amount. On June 30, 1911, and November 29, 1911, the New York, New Haven & Hartford Railroad Company purchased for



cash at par respectively 70,424 shares and 2,395 shares of Boston Railroad Holding Company preferred stock. (I. C. C. Exhibit No. 46, schedule 1, sheet 5.)

The records of the New York, New Haven & Hartford Railroad Company indicate that between January 1, 1911, and June 6, 1911, 28,000 shares of Boston Railroad Holding Company preferred stock were sold to Lee Higginson & Company at 94 flat, and that the loss, \$168,000, was charged to profit and loss.

*Boston Railroad Holding Company 50-year 4 per cent debenture bonds, due November 1, 1959.*—At a stockholders' meeting held August 31, 1909, bonds to the par value of \$13,743,000 were authorized in part payment for 109,948 shares of Boston & Maine Railroad Company common stock. The Holding Company's books indicate that these bonds were issued to the New England Navigation Company on October 1, 1909, whereas the records of the New England Navigation Company show the acquisition of these bonds under date of October 23, 1909. These bonds were transferred at par on May 19, 1910, to the New York, New Haven & Hartford Railroad Company, \$8,436,767.25 was applied on account of principal and interest of New England Navigation Company note dated October 27, 1909, held by the New Haven Company, and \$5,333,718.75 was applied on account of subscription to New York, New Haven & Hartford Railroad Company capital stock.

Bonds to the par value of \$2,697,000 and \$3,572,000 authorized at stockholders' meetings held on October 12, 1909, and February 14, 1910, respectively, were issued on April 29, 1910, to the New York, New Haven & Hartford Railroad Company in part settlement of Boston Railroad Holding Company's notes.

The total amount of bonds outstanding at April 29, 1910, was \$20,012,000, all of which was owned and guaranteed as to principal and interest by the New York, New Haven & Hartford Railroad Company.

Under the caption "Capital stock preferred" it is stated that these bonds were retired by an issue of preferred stock. Exhibit I. C. C. No. 46, sheet 6, contains a copy of the certificate of cremation relative to the \$20,012,000 of 50-year 4 per cent debenture bonds of the Boston Railroad Holding Company.

*Boston & Maine Railroad Company common stock.*—During the period between October 1, 1909, and July 21, 1911, the Boston Railroad Holding Company acquired 219,189 shares of Boston & Maine Railroad Company common stock. Sheet 11 of Exhibit I. C. C. No. 46 shows how the stock was acquired and that there was issued by the Boston Railroad Holding Company common stock to the par value of \$1,649,200 in the name of the New York, New Haven & Hartford Railroad Company; Boston Railroad Holding Company 4 per cent bonds, par value \$13,743,000, to the New England Navigation Company; bills payable, \$6,566,863.90 (detailed on sheets 25 and 26 of I. C. C. Exhibit No. 46); and cash, \$7,283,521.78. These 219,189 shares of Boston & Maine Railroad Company common stock are represented by the following certificates:

|                             | Shares. |
|-----------------------------|---------|
| C 6195, Oct. 6, 1909.....   | 109,948 |
| C 6466, Jan. 5, 1910.....   | 16,955  |
| C 6470, Jan. 11, 1910.....  | 11,283  |
| C 6543, Feb. 4, 1910.....   | 5,699   |
| C 6592, Feb. 15, 1910.....  | 9,686   |
| C 11113, June 30, 1911..... | 63,345  |
| C 11241, July 21, 1911..... | 2,273   |
| Total.....                  | 219,189 |

These were carried as of July 1, 1913, at a book value of \$29,242,585.68, or at an average price per share of \$133.41.

The book value of the 219,189 shares was reduced by a charge of \$1,315,134 to profit and loss on December 31, 1913, representing a shrinkage of \$6 per share, pursuant to a vote of the board of directors at a meeting held on February 25, 1914. The ledger value of these 219,189 shares on February 25, 1914, was \$27,927,451.68, or an average price of \$127.50 per share.

*Boston & Maine Railroad Company preferred stock.*—During the period October 1, 1909, to February 16, 1910, the Boston Railroad Holding Company acquired 6,543 shares of Boston & Maine preferred stock, which are carried at a ledger value of \$1,060,145, or an average price of \$162.03 per share. Sheet 12 of I. C. C. Exhibit No. 46 shows that this Boston & Maine preferred stock with certain shares of common stock was paid for with notes of the Boston Railroad Holding Company. Five thousand eight hundred and twenty-six shares are represented by Boston & Maine certificate B 404, dated January 5, 1910, and 717 shares by certificate B 419, dated February 16, 1910.

Each certificate of both common and preferred stock bears a rubber stamp impression reading as follows:

The stock represented by this certificate has been acquired by the Boston Railroad Holding Company under the terms of chapter 519 of the act of Massachusetts for the year 1909, and can not be sold by the Holding Company without the express authority of the Legislature of the Commonwealth of Massachusetts.

The Boston & Maine Railroad Company certificates are deposited in a vault in the Old Colony Trust Company's bank in Boston, Mass.

*Boston & Maine Railroad Company 4 per cent bond of 1926.*—On March 27, 1913, the Boston Railroad Holding Company purchased one Boston & Maine Railroad Company 20 year 4 per cent bond No. 5002, from Blake Brothers & Company, for \$922.50, giving therefor their check No. 17, drawn on the First National Bank of Boston in favor of Blake Brothers & Company for \$925.50, \$3 of which represented accrued interest from March 1, 1913. Through error or otherwise this bond has been included at a value of \$925.50 in a report to the Commonwealth of Massachusetts under date of September 29, 1913.

*Cash.*—Sheets 14 to 23, inclusive, of I. C. C. Exhibit No. 46, contain a detailed analysis of cash receipts and disbursements for the period June 29, 1909, to April 13, 1914.

The cash on hand as of April 13, 1914, \$3,341.18, was verified by comparison with the following bank books, viz:

|  |          |
|--|----------|
| First National Bank, Boston, Mass.....   | \$810.22 |
| Old Colony Trust Co., Boston, Mass.....  | 862.13   |
| New England Trust Co., Boston, Mass..... | 856.96   |
| National Shawmut Bank, Boston, Mass..... | 811.87   |
| Total.....                               | 3,341.18 |

The first item of cash is that of \$100,000 received as a subscription to capital stock and deposited in the National Shawmut Bank July 15, 1909. The cash book entry however, shows the receipt as of June 29, 1909, but it does not indicate from whom the amount was received.

*Bills payable.*—Sheets 25 and 26 of Exhibit I. C. C. No. 46 show that the Boston Railroad Holding Company issued its demand notes during the period October 1, 1909, to July 21, 1911, to the amount of \$13,166,900.78. These notes were made payable to the order of the New York, New Haven & Hartford Railroad Company, the Boston & Maine Railroad Company, and Lee Higginson & Company. None of them were made in favor of John L. Billard, J. L. Billard, or the Billard Company.

Notes aggregating \$7,627,008.90 were liquidated on April 29, 1910, by the Old Colony Trust Company of Boston, Mass., delivering to Mr. A. S. May, treasurer of the New York, New Haven & Hartford Railroad Company, 13,573 shares of the common stock of the Boston Railroad Holding Company, having a par value of \$1,357,300, and \$6,269,000 par value 50-year 4 per cent debentures of the Boston Railroad Holding Company, and check for \$708.90.

Notes of January 10 and April 1, 1911, aggregating \$5,300,374.50 were canceled by a cash payment on June 30, 1911, from the proceeds of sale of 70,424 shares of Boston Railroad Holding Company preferred stock at par to the New York, New Haven & Hartford Railroad Company. The note dated July 21, 1911, for \$239,517.38,

was paid in cash from the proceeds of 2,395 shares of preferred stock issued January 16, 1912, and sold at par as of November 29, 1911, to the New York, New Haven & Hartford Railroad Company. There are no notes payable outstanding at the present time.

*Profit and loss account.*—The Holding Company's income is derived from its holdings in Boston & Maine securities, in the shape of dividends on stocks owned, interest on one bond owned, and small amounts of interest on bank balances. Its expenditures consist of payments of bond interest, interest on notes, dividends on capital stock, and miscellaneous items of general expense.

At the end of the fiscal year June 30, 1910, there remained a surplus of \$192,055.29. The surplus for the following fiscal year amounted to \$193,328.61, which, added to surplus of June 30, 1910, gave a credit balance of \$385,383.90 at June 30, 1911.

The profit and loss account for the year ended June 30, 1912, shows:

|  |                     |
|--|---------------------|
| Dividends on Boston & Maine Railroad Co. common stock.....                               | \$876,756.00        |
| Dividends on Boston & Maine Railroad Co. preferred stock.....                            | 39,258.00           |
| Total credits.....   | <u>916,014.00</u>   |
| Less:  |                     |
| General expenses.....  | 56,869.75           |
| Interest (balance).....  | 1,228.09            |
| Dividends on Boston Railroad Holding Co. preferred stock paid.....                       | 941,328.00          |
| Dividends on Boston Railroad Holding Co. preferred stock accrued, due July 10, 1912..... | 545,878.00          |
| Total debits.....  | <u>1,545,303.84</u> |

Resulting in a deficit for the year \$629,289.84, from which deduct the surplus at June 30, 1911, amounting to \$385,383.90, leaving a deficit of \$243,905.94 at June 30, 1912, with which to begin the next fiscal year.

For the year ended June 30, 1913, the profit and loss account shows:

|   |                     |
|---|---------------------|
| Dividend on Boston & Maine R. R. Co. common stock.....    | \$657,567.00        |
| Dividend on Boston & Maine R. R. Co. preferred stock..... | 39,258.00           |
| Interest on bank balances, etc.....                       | 2,096.28            |
| Total credits.....  | <u>698,921.28</u>   |
| Less:   |                     |
| General expenses.....                                     | 1,036.76            |
| Taxes.....  | 105,944.14          |
| Dividend on preferred stock.....                          | 1,091,756.00        |
| Total debits.....   | <u>1,198,736.90</u> |
| Resulting in a deficit for the year.....                  | 499,815.62          |

which added to deficit (\$243,905.94) carried from previous year makes the total profit and loss deficit \$743,721.56, at June 30, 1913, to which there was charged \$1,315,134, in order to adjust a shrinkage of \$6 per share on 219,189 shares of Boston & Maine Railroad Company common stock, pursuant to a vote of the board of directors at a meeting held on February 25, 1914.

The income of the Boston Railroad Holding Company through dividends on its holdings of Boston & Maine stock ceased with the dividend payment on March 1, 1913, of \$3 per share on 6,543 shares of the preferred stock, amounting to \$19,629, and the payment on April 1, 1913, of \$219,189, representing \$1 per share on 219,189 shares common stock. The Boston & Maine has not paid any dividends subsequent to the above dates.

As previously stated, the Holding Company's income is derived solely from dividends on Boston & Maine Railroad Company stocks owned, and interest on one bond owned and bank balances. As a consequence of the failure of the Boston & Maine Railroad Company to pay dividends on its capital stock the Holding Company is in

turn without income from which to declare or pay dividends on its preferred stock. (Dividends are guaranteed by the New York, New Haven & Hartford Railroad Company.) The Holding Company must of necessity borrow funds in sufficient amount to enable it to pay dividends, taxes, and administration expenses.

During the period, December 28, 1911, to January 10, 1914, the New York, New Haven & Hartford Railroad Company advanced to the Boston Railroad Holding Company on open account and unsecured, \$1,224,887.97, of which amount \$112,000 was paid as dividends on 28,000 shares held by the public in small blocks, and \$979,756 was paid as dividends on 244,939 shares owned by the New York, New Haven & Hartford Railroad Company. The result of these transactions has been to place on the books of the New York, New Haven & Hartford Railroad Company a doubtful asset of \$1,224,887.97, under items recollectible, the major portion of which advances was repaid as dividends to the New York, New Haven & Hartford Railroad Company, and by it credited to income.

To state the matter in another way: The New Haven Company advanced to the Boston Railroad Holding Company \$1,224,887.97, in order that the Holding Company could return the major portion of it as dividends to the New Haven Company. Or to state it in still another way: Assume for the moment that no holding company existed and that the New Haven Company was in direct possession of the Boston & Maine Railroad Company stock, what justification would there be for the New Haven Company to debit a fictitious asset account on the one hand, and credit income account with dividends not earned on the other. No amount of bookkeeping can create an income where none exists. In form, the dividends have been paid, even though not earned, but in substance no dividend has been paid or earned by the New Haven Company on the Boston Railroad Holding Company stock held by it. Under the circumstances a clearer accounting of the facts would have been accomplished if the resultant loss occasioned by the New Haven's guaranty of dividends on that portion of the Boston Railroad Holding Company preferred stock in the hands of the public had been charged as a deduction from income.

As a further loss sustained by the New Haven, consideration should also be given to the shrinkage in value of Boston & Maine Railroad Company stock, now a nondividend stock, and also to the uncertain outcome of the dissolution proceedings under way by the Department of Justice.

Until such time as the Boston & Maine Railroad Company is able to resume dividend payments it will cost the New York, New Haven & Hartford Railroad Company \$112,000 annually in the shape of dividend payments on 28,000 shares of Boston Railroad Holding Company preferred stock held by the public, and to which sum it would appear proper to add the loss of interest on the investment in Boston Railroad Holding Company stock.

The condition of the Boston Railroad Holding Company at April 13, 1914, against which the New York, New Haven & Hartford Railroad Company is carrying a recollectible item of \$1,224,887.97, as shown by its books, was:

*Balance sheet.*

DEBIT ITEMS.

|  |                      |
|--|----------------------|
| Boston & Maine R. R. Co. common stock, 219,189 shares, at \$127.50.....  | \$27,927,451.68      |
| Boston & Maine R. R. Co. preferred stock, 6,543 shares, at \$162.03..... | 1,060,145.00         |
| Boston & Maine R. R. Co. 4 per cent bond of 1926, 1 bond.....            | 922.50               |
| Cash in banks.....   | 3,341.18             |
| Profit and loss (deficit).....   | 2,633,427.61         |
| Total.....   | <u>31,625,287.97</u> |



## CREDIT ITEMS.

|   |                |
|---|----------------|
| Capital stock:  |                |
| Common.....   | \$3,106,500.00 |
| Preferred.....  | 27,293,900.00  |
| Advances on dividends accrued, etc., New York, New Haven & Hartford R. R. Co..... | 1,224,887.97   |
| Total.....  | 31,625,287.97  |

An analysis of the profit and loss account for the period June 29, 1909, to April 13, 1914, shows:

## RECEIPTS.

|   |                |
|---|----------------|
| Dividends received on Boston & Maine R. R. Co. common stock.....    | \$3,125,048.50 |
| Dividends received on Boston & Maine R. R. Co. preferred stock..... | 137,403.00     |
| Interest received on Boston & Maine R. R. Co. bond.....             | 117.00         |
| Interest received on bank balances.....                             | 11,762.90      |
| Total cash receipts.....  | 3,274,331.40   |

## DISBURSEMENTS.

|  |              |
|--|--------------|
| Dividends on preferred stock.....  | 3,124,840.00 |
| Dividends on common stock.....   | 124,260.00   |
| Interest on debenture bonds.....   | 953,985.33   |
| Interest on notes payable.....   | 145,742.79   |
| Expenses and taxes.....  | 243,796.89   |
| Total cash disbursements.....  | 4,592,625.01 |
| Excess of disbursements over receipts.....   | 1,318,293.61 |
| Plus shrinkage of \$6 per share on 219,189 shares Boston & Maine common stock..... | 1,315,134.00 |
| Profit and loss (deficit) April 13, 1914.....                                      | 2,633,427.61 |

The cash account for the period June 29, 1909, to April 13, 1914, was analyzed, and shows:

## RECEIPTS.

|  |                |
|--|----------------|
| Proceeds from sale of capital stock.....                 | \$7,381,900.00 |
| Proceeds from notes payable.....                         | 5,539,891.88   |
| Advances by New York, New Haven & Hartford R. R. Co..... | 1,224,887.97   |
| Total.....   | 14,146,679.85  |

## DISBURSEMENTS.

|   |               |
|---|---------------|
| Acquisition of Boston & Maine R. R. Co. securities..... | 7,284,444.28  |
| Notes payable.....                                      | 5,540,600.78  |
| Income deficit.....                                     | 1,318,293.61  |
| Total.....  | 14,143,338.67 |
| Cash balance on hand, April 13, 1914.....               | 3,341.18      |

*General.*—The first meetings of the stockholders and directors of the Boston Railroad Holding Company were held on June 29, 1909, room 64 Ames Building, Boston, Mass. No books of account, as such, were kept during the period between the date of organization, June 29, 1909, and October 18, 1909, the day on which three account books were purchased and received from Hooper Lewis Company. These books were paid for on January 6, 1910. It is therefore not unreasonable to assume that the books of accounts were started sometime after their receipt, notwithstanding that transactions bearing dates previous to October 18, 1909, had been entered. Frederick C. Dumaine, the former president of the Holding Company, informed the examiner that to the best of his recollection no books were kept for the Holding Company until late in the fall of 1909; that whatever transactions there were were kept on memoranda and that when the books were purchased entries were later transferred to the books from these memoranda. The absence of account books, and the recording of transactions on memoranda are probably responsible, either inadvertently or designedly, for the dates and incompleteness of certain transactions shown on the Holding Company's books, being at variance with entries on the books of the New England Navigation Company, or the New York, New Haven & Hartford Railroad Company or associated companies.

*Acquisition of Boston & Maine Railroad Company common stock.*—Attention is directed to the following excerpts from copies of correspondence and schedules filed in dockets 4845 and 6569, which relate to the acquisition of 109,948 shares of Boston & Maine Railroad Company stock:

At a special meeting of the board of directors of the New England Navigation Company held at Grand Central Station, New York City, Saturday, April 6, 1907, it was:

voted that the president is hereby authorized to offer on behalf of this company to purchase, and from time to time purchase any or all of the stock of the Boston & Maine Railroad Company, and to pay for such stock by transferring and delivering for each share of such stock so purchased one share of the capital stock of the New York, New Haven & Hartford Railroad Company, and to pay Lee Higginson Company a commission of 75 cents per share on each share of Boston & Maine stock so purchased.

On April 29, 1907, an agreement was entered into by the New England Navigation Company and the American Express Company by which—

the express company for itself and associates agrees to sell to the New England Navigation Company not less than 55,000 shares of the common stock of the Boston & Maine Railroad Company for an equal number of shares of the New York, New Haven & Hartford Railroad Company, to be delivered on or before June 15, 1907, through Lee Higginson & Company, Lee Higginson & Company to receive a brokerage fee of \$1.50 per share, 75 cents per share to be paid by each party.

J. C. FARGO.  
C. S. MELLEN.

It appears from correspondence in the record that certain members of the board of directors were opposed to the New Haven's acquiring the Boston & Maine stock. For instance, on May 8, 1907, Charles F. Choate, sr. (deceased), then a director on the New Haven board, wrote in part to President Mellen as follows:

I have been greatly troubled by the rumors of your dealings with Boston & Maine Railroad Company. I have little faith in that company and can not think it is fairly earning to 7 per cent dividend. I don't wonder the parties owning large blocks want to sell, but I think it is a great mistake for the New Haven to buy it at any price.

The current rumor that you have bought has hurt you and the company very much indeed.

A letter under date of May 9, 1907, written by John C. Cobb to C. S. Mellen contains the following:

It is, however, pretty generally accepted that the New Haven is contemplating acquiring certain large blocks of Boston & Maine stock, and in addition, making exchanges of New Haven shares for additional amounts, and the proposition seems to strike many shareholders, and State Street generally adversely, and as being better for Boston & Maine stockholders than for New Haven, which opinion is undoubtedly apparent to you in the action of the two stocks.

On May 22, 1907, Mr. Mellen in a confidential letter to H. M. Whitney, of 45 Milk Street, states that it—

had been agreed by Mr. Ledyard, Mr. Tuttle, and himself, that just as little official information should get into the newspapers regarding the Boston & Maine as was absolutely necessary, and further that the Washington situation he thought was completely cared for.

On May 21, 1907, Mr. H. M. Whitney wrote to C. S. Mellen, and stated that he hoped Mr Mellen would think it consistent to say something at an early day touching the Boston & Maine matter, and—

I have also thought it possible that the Little Father in Washington might like to get his finger into the pie, in which case, if it happened before the public had become reconciled to the change, it might result in infinite harm to all your interests.

Another letter by Charles F. Choate, sr. (deceased), was written on May 30, 1907, to C. S. Mellen, and contains the following:

I see great trouble ahead for the company and for you personally from the State action.

The stockholders here seem almost in dismay at the present conditions. So far as I have seen them they are not willing to give their proxies for the meeting on May 31, seeming to think that this is in some way connected with the Boston & Maine merger.

In the light of recent events, and the present financial condition of the Boston Railroad Holding Company, it would seem that the "trouble" predicted by Mr. Choate had materialized.

On June 4, 1907, C. S. Mellen wrote to his excellency, Curtis Guild, jr., the State-house, Boston, Mass., regarding the Boston & Maine matter, and stated that:

Interests identified with my company have acquired a large stock interest in the Boston & Maine Railroad and have entered into agreement to acquire such additional stock as may desire to avail of the terms within a reasonable time in the future.

According to the schedule prepared from the books of the New England Navigation Company (the medium through which this stock was acquired and held by the New Haven until it was turned over to John L. Billard), the interests were apparently Lee Higginson & Company, L. C. Ledyard, C. M. Pratt Company, C. M. Pratt, American Express Company, H. M. Whitney, New York Central & Hudson River Railroad Company, etc. The New England Navigation Company's books show that in all 120,872 shares of Boston & Maine Railroad Company common stock were acquired between June 12, 1907, and June 27, 1907, and that 10,924 shares were disposed of on June 30, 1907, leaving 109,948 shares on hand, acquired at a cost of \$12,858,177.10, or \$116.15 per share, plus certain commissions. The book cost of this stock was written up to \$125 per share on November 30, 1907, and the difference, \$885,322.90, was credited to an account entitled "Auditor's suspense," and later on transferred to an account called capital reserve, from which latter account credits pass to profit and loss.

The foregoing extracts from letters and the reference to the New England Navigation Company's record of this stock are stated for the purpose of showing that despite opposition on the part of directors, stockholders and others, deals were consummated whereby the New York, New Haven & Hartford Railroad Company eventually came into control of the Boston & Maine Railroad Company. The transactions subsequent to June 30, 1907, between the New Haven and its related companies will not be touched upon here, inasmuch as it is understood that full explanation thereof will be made in that section of the final report treating of the Billard Company, or John L. Billard's relations in the Boston & Maine stock matter.

A letter under date of July 18, 1907, written by T. E. Byrnes, vice president, to C. S. Mellen, president, refers to a conversation with Mr. Dumaine, who took lunch with Postmaster General George v. L. Meyer, and discussed with him quite fully the New Haven situation in Massachusetts. Mention is made of a luncheon to which there would be invited Senator Lodge, the governor, and such others as it was thought advisable to meet President Mellen in order that they might have a better understanding of his (Mellen's) purpose. He (Dumaine) had no doubt that the Republican organization of the State of Massachusetts could be led to give support to Mellen's plans.

On October 2, 1907, President Mellen in a letter to O. P. Walker, of Marlboro, Mass., writes in part:

The position we are now in secures us from the danger of the Boston & Maine passing to interests inimical to those of our company.

The position referred to evidently is that of the New England Navigation Company, the subsidiary which held the Boston & Maine stock.

On December 16, 1907, President Mellen in a confidential letter to Lawrence Minot, of Boston, Mass., concludes his letter with:

If I am to be rejected in my plans for the improvement of the business of the city of Boston particularly and the Commonwealth generally, would it not seem funny that Mr. Harriman should be the Moses to lead the disaffected element out of all the troubles they anticipate from a control by the interests I am representing?

On May 13, 1908, a telegram reading as follows was sent to T. E. Byrnes, vice president of the New Haven:

Have had talk with Mr. Harriman to-day. Want you to see Warren, Choate, and Benton and advise me if best possible way out of difficulty is not sale. It is useless to contend if we are to have public sentiment against us. Why is it not better to let Harriman have the fight on his hands and we retire with profit? It seems to me it administers poetic justice in addition to letting us out. Have another appointment with him to-morrow.

The New Haven's control of the Boston & Maine stock did not pass to E. H. Harriman. One hundred and nine thousand nine hundred and forty-eight shares were carried in the accounts of the New England Navigation Company until sold at \$125 per share to John L. Billard. Billard held the stock until October, 1909, when arrangements were made to turn it over to the Boston Railroad Holding Company at a price of \$140 per share. In the acquisition of this stock the Boston Railroad Holding Company issued common stock to the par value of \$1,649,200, bonds to the par value of \$13,743,000, and paid in cash a balance of \$520.

On June 18, 1909, an act of the General Court of the Commonwealth of Massachusetts was approved, authorizing the incorporation of the Boston Railroad Holding Company for the sole purpose of acquiring the whole or any part of the capital stock, bonds, and other evidences of indebtedness of the Boston & Maine Railroad Company.



## EXHIBIT D.

### INVESTIGATION OF THE ACCOUNTS OF THE NEW ENGLAND INVESTMENT & SECURITY COMPANY.

#### SUMMARY.

The New England Investment & Security Company is a holding company for street railway properties. In the acquisition of the securities of these properties very high prices were sometimes paid, attention being directed to the following:

Berkshire Street Railway Company stock: Some shares bought at \$100, others as high as \$300. Hartford & Worcester Street Railway Company stock: This was bought at a cost of \$134,980 and sold to another subsidiary at \$61,585.73. The Railroad Commission of Massachusetts fixed the sale price and it would therefore appear that the New England Investment & Security Company paid \$73,394.27 too much for this property. Springfield Railway Companies' preferred stock: Bought for \$746,929.15 and sold for \$543,708, a loss of \$203,221.15. Springfield Railway Companies' common stock: Whilesome was secured at \$38.67, other stock cost \$87.50. Springfield Street Railway Company stock: Prices paid ranged from \$170 to \$330. Worcester Railways & Investment Company stock: Prices paid ranged from \$82 to \$106.74. Woronoco Street Railway Company stock: This lot was bought for \$2,000 and closed out at \$1,200.

Some of the bond transactions were: Springfield Street Railway Company first mortgage bonds: Bought for \$195,000 and sold for \$186,660, a loss of \$8,340. Webster & Dudley Street Railway Company first mortgage bonds: Bought at a premium of \$3,837.71, from the New York, New Haven & Hartford Railroad Company, and still retained. Worcester Consolidated Street Railway Company 5 per cent debentures of 1927: Bought from the New England Navigation Company at par and sold at 99, a loss of \$10,500. Worcester & Southbridge Street Railway Company first mortgage 4½ per cent bonds: Bought from the New England Navigation Company at a premium of \$640 and sold at 93.33, a loss of \$15,580. Worcester & Webster Street Railway Company first mortgage bonds: Bought from the New York, New Haven & Hartford Railroad Company, at a premium of \$11,922.22 and still retained.

It was first the intention to inject water into the capitalization to the extent of \$10,000,000 by giving the Consolidated Railway Company 100,000 shares of the common stock of the New England Investment & Security Company, but this plan was not carried into effect.

Among the items included in the book value of securities owned which might be considered as inflations are the following:

|  |                   |
|--|-------------------|
| Deficiency in the book value of the securities received from the Consolidated Ry. Co. on June 25, 1906, in exchange for the \$10,000,000 note. This deficiency is now being carried in the book value of Springfield Ry. Co.'s common stock.....               | \$81,854.35       |
| Cash bonus paid to the holders of stock of the Woronoco Street Ry. Co. when they exchanged their holdings for stock of the Springfield Ry. Cos. This bonus has been included and is being carried in the book value of Springfield Ry. Cos.' common stock..... | 149,400.00        |
| Amount of two notes of the Worcester & Southbridge Street Ry. Co., canceled and added to the book value Worcester Railways & Investment Co. stock, account consolidation of the two companies.....   | 102,670.45        |
| Loss on account of sale of Hartford & Worcester Street Ry. Co.'s stock, added to book value of Worcester Railways & Investment Co. stock.....  | 73,394.27         |
| Loss on account of sale of Woronoco Street Ry. Co. stock, added to the book value of the Springfield Ry. Cos.' common stock.....   | 800.00            |
| <b>Total.....</b>  | <b>408,119.07</b> |

During the years 1907 and 1908 the New York, New Haven & Hartford Railroad Company advanced, for the payment of the guaranteed dividend on preferred stock, the sum of \$277,968, which, together with interest thereon amounting to \$24,097.03, a total of \$302,065.03, was repaid to the New York, New Haven & Hartford Railroad Company in 15-year funding gold notes at par for \$302,000 and \$65.03 in cash.

Fifteen-year funding gold notes to the extent of \$391,846.67 were issued as of April 1, 1909, for accrued interest on all notes payable outstanding as of that date.

This makes a total of \$893,846.67 of 15-year funding gold notes issued to liquidate advances for dividends and interest.

On December 24, 1906, a note for \$200,000 was made in favor of the Consolidated Railway Company for payment of the semiannual interest on the note of June 25, 1906, for \$10,000,000. This note was liquidated by the issue of fifteen-year funding gold notes, to the New England Navigation Company, who then held the note.

*Payments for legal services and brokerage.*—The New England Investment & Security Company vouchered for itself and subsidiary companies, "Legal expenses" to the amount of \$167,114.39, of which \$165,408.49 was paid to the firm of Warren, Garfield, Whiteside & Lamson, of Boston, Mass., Mr. Bentley W. Warren, the senior member of this firm was a trustee of the New England Investment & Security Company in 1909.

Mackay & Company, bankers, of Boston, Mass., and New York, N. Y., received a commission of \$1 per share upon certificates of preferred stock issued, whether sold by them or by others. This commission was paid in preferred shares, and amounted to 537 shares, par value \$53,700. Frederick W. Kendrick of Cambridge, Mass., who is named as a "subscriber" in the agreement and declaration of trust, and who was a trustee of the New England Investment & Security Company during the fiscal years 1907, 1908, and 1909, is referred to in Senate Document No. 316, of the Commonwealth of Massachusetts as a "member of the firm of Mackay & Company."

The present outstanding obligations of the New England Investment & Security Company, are as follows:

|                                 |             |
|---------------------------------|-------------|
| Capital stock, preferred.....   | \$4,000,000 |
| Capital stock, common.....      | 100,000     |
| 15-year funding gold notes..... | 13,709,000  |
| Total.....                      | 17,809,000  |

The preferred stock is in the hands of the public, while the common stock is held in the names of Messrs. Edwin N. Sanderson, and H. Hobart Porter. The latter are entitled to name four of the seven managing trustees, who have the power to call the preferred stock as an entirety at 105, and accrued interest. The New York, New Haven & Hartford Railroad Company has, indirectly, guaranteed the interest on the preferred stock, and the amount to be paid thereon when called, or upon liquidation. It would therefore appear that Messrs. Sanderson and Porter are the potential owners of the New England Investment & Security Company.

On the other hand, the New England Navigation Company, a creature of the New York, New Haven & Hartford Railroad Company, now holds all the outstanding notes of the New England Investment & Security Company, amounting to \$13,709,000, or the great majority of the obligations of this company.

The relations between Messrs. Sanderson and Porter on the one hand, and the New York, New Haven & Hartford Railroad Company on the other, were not developed at Springfield, Mass.

Beginning with the fiscal year 1910, dividends on the common stock have been declared, at the rate of 10 per cent per annum, though the profit and loss account has continuously shown a deficit, which as of March 31, 1914, amounted to \$470,795.17. These dividends were declared by the managing trustees, seven in number, four of whom are named by the holders of the common stock.

## REPORT OF THE INVESTIGATION OF ACCOUNTS OF THE NEW ENGLAND INVESTMENT &amp; SECURITY COMPANY.

[March 31, 1914, to April 25, 1914.]

The New England Investment & Security Company began operations on June 25, 1906, as per printed copy of the agreement and declaration of trust, Exhibit A, and tri-party agreement of same date, with the Consolidated Railway Company and the New York, New Haven & Hartford Railroad Company, Exhibit B, of the working papers.

*Agreement and declaration of trust.*—The agreement and declaration of trust provided for:

Seven trustees, in whom was lodged the management of the company, four to represent the common shareholders and three the preferred shareholders.

The guarantee by the Consolidated Railway Company of accumulative dividends at 4 per cent per annum on the preferred stock.

The calling of the preferred stock as an entirety at any time by the trustees at \$105 per share and any accumulated and unpaid dividends.

*Tri-party agreement with the Consolidated Railway Company and the New York, New Haven & Hartford Railroad Company.*—The tri-party agreement provided for:

The guaranty by the Consolidated Railway Company of the dividend on the preferred shares and payment in liquidation.

The agreement by the New York, New Haven & Hartford Railroad Company to indemnify the Consolidated Railway Company against loss under this guaranty.

*Common stock.*—One hundred thousand shares of common stock were issued on June 25, 1906, to Mackay & Company as agents, and charged to them in open account, to be accounted for as disposed of. The agreement and declaration of trust and the tri-party agreement stipulated that for each share of preferred stock issued and guaranteed by the Consolidated Railway Company, the latter was to be given one share of common stock, but this part of the agreement was not carried into effect. After a suit before the Supreme Judicial Court of the Commonwealth of Massachusetts, the New York, New Haven & Hartford Railroad Company, on October 12, 1908, executed a waiver to such common shares, as per Exhibit C, of the working papers.

On March 31, 1907, all of the common stock except 1,000 shares was recalled from Mackay & Company and canceled, thereby reducing the common capital stock outstanding from \$10,000,000 to \$100,000.

On June 29, 1907, a check of the New England Navigation Company for \$100,000 was received in payment for these 1,000 shares, and on the same date the same amount was paid to the New York, New Haven & Hartford Railroad Company on account of the note dated June 25, 1906, for \$10,000,000.

The records of the New England Investment & Security Company show that these 1,000 shares passed to the possession of eight directors of the New York, New Haven & Hartford Railroad Company, Messrs. James S. Elton, C. S. Mellen, Edwin Milner, William Skinner, J. H. Whittemore, Charles F. Brooker, J. S. Hemingway, and D. Newton Barney. Messrs. Hemingway and Barney transferred their holdings on May 19, 1908, to Messrs. Henry L. Higginson and Daniel G. Wing. On May 23, 1908, Charles F. Brooker transferred his 100 shares to Edward D. Robbins, who is shown on the New York, New Haven & Hartford Railroad Company's annual report to the Interstate Commerce Commission for 1908, as a director and also as counsel.

The personnel of the common stockholders continued the same as shown above on January 2, 1909.

On June 26, 1909, the following 10 men held 100 shares each: Henry L. Higginson, Daniel G. Wing, James B. Brady, Arthur S. Backus, Raymond S. Clark, Louis E. Harmse, Horatio A. Hunt, Otis S. Northrop, Henry H. Peck, and Edward D. Redfield.

On June 20, 1910, Messrs. Higginson, Brady, Clark, Harmse, and Redfield were the only holders of common stock, the next change occurring on June 20, 1913, when Edward D. Redfield dropped out and Messrs. Edwin N. Sanderson and H. Hobart Porter are each shown as the owners of 100 shares of the 200 shares previously held by Redfield.

On December 20, 1913, the entire 1,000 shares are shown as being in the name of Messrs. Sanderson and Porter, the former being credited with 450 shares and the latter with 550 shares. Detail of the holding of common shares is shown on Exhibit D of the working papers.

The stubs of the common-stock certificates were reported as being held in Boston, Mass., by the Old Colony Trust Company, and hence were not referred to.

*Preferred stock.*—One hundred thousand shares of the preferred stock were issued on June 25, 1906, to Mackay & Company as agents and charged to them in open account, to be accounted for as disposed of. The agreement and declaration of trust and the tri-party agreement stipulated that 45,500 shares of preferred stock were to be issued to the subscribers in payment for 36,500 shares Worcester Railways & Investment Company, 7,000 shares Worcester & Southbridge Street Railway Company, 2,000 shares Worcester & Blackstone Valley Street Railway Company, but this part of the agreement was not carried into effect.

On June 30, 1907, the unsold preferred capital stock, 64,612 shares, par value \$6,461,200, was recalled from Mackay & Company, 4,612 shares, or \$461,200 being placed in the company's treasury, and the remainder, 60,000 shares, canceled, thereby reducing the outstanding preferred capital stock from \$10,000,000 to \$4,000,000.

The 40,000 shares of outstanding preferred stock were issued as follows:

|  | Shares. | Amount.     |
|--|---------|-------------|
| In exchange for stock of other companies.....                            | 35,488  | \$3,548,800 |
| Issued as commissions.....   | 557     | 55,700      |
| Cash sales through brokers, at 80 and 91.....                            | 3,955   | 348,905     |
| Discount on these 3,955 shares (charged to profit and loss account)..... |         | 46,595      |
| Total.....   | 40,000  | 4,000,000   |

The exchanges were made as follows:

| Company.                                 | Shares of other stock received. | Shares of preferred stock issued. |
|--|---------------------------------|-----------------------------------|
| Berkshire Street Ry. Co.....             | 10                              | 10                                |
| Central Massachusetts Electric Co.....   | 875                             | 610                               |
| Springfield & Eastern Street Ry. Co..... | 1,723                           | 1,723                             |
| Uxbridge & Blackstone Street Ry. Co..... | 1,197                           | 1,437                             |
| Western Massachusetts Street Ry. Co..... | 3,000                           | 3,000                             |
| Worcester Railways & Investment Co.....  | 27,354                          | 28,708                            |
| Total.....                               | 34,159                          | 35,488                            |

All of the above stock had a par value of \$100 per share, with the exception of that of the Worcester Railways & Investment Company, which had no par value.

Of the 557 shares issued as commissions, Mackay & Company received 537 shares, par value \$53,700, in accordance with their agreement of June 25, 1906, providing for the payment to Mackay & Company of \$1 per share upon the certificates of preferred stock issued, said commissions to be paid in certificates of preferred shares.

In the agreement and declaration of trust (Exhibit A) on page three, Frederick W. Kendrick, of Cambridge, Mass., is shown as a "subscriber" and in Senate Document No. 316, of the Commonwealth of Massachusetts, (Exhibit M) on page 11, he is referred



to as being "a member of the firm of Mackay & Company, bankers, who contracted to sell the preferred shares." This Frederick W. Kendrick was also a trustee during the fiscal years 1907, 1908, and 1909. (Exhibit K, sheet 8.)

Details of preferred stock issues, and the Mackay & Company transactions are shown on Exhibit E of the working papers.

*Securities acquired in exchange for ten-million-dollar note.*—The real starting of the New England Investment & Security Company was the turning over to it by the Consolidated Railway Company on June 25, 1906, of securities having a book value of \$9,918,145.65, for which the New England Investment & Security Company gave the Consolidated Railway Company a note payable of the same date for \$10,000,000. The difference of \$81,854.35 was arbitrarily added by the New England Investment & Security Company to its book value of the Springfield Railway Companies' common stock.

The securities received in this exchange were as follows:

|   |              |                     |
|---|--------------|---------------------|
| 7,000 shares Worcester & Southbridge Street Ry. Co. stock, par value \$100 each.....                  | \$750,973.75 |                     |
| 224 Worcester & Southbridge Street Ry. Co. first mortgage 4½ per cent bonds....                       | 224,640.00   |                     |
| Demand notes of the Worcester & Southbridge Street Ry. Co. bearing interest at 5 per cent.....        | 146,369.33   | \$1,121,983.08      |
| 2,000 shares Worcester & Blackstone Valley Street Ry. Co. stock, par value \$100 each.....            | 277,400.89   |                     |
| Demand notes of the Worcester & Blackstone Valley Street Ry. Co., bearing interest at 5 per cent..... | 257,076.67   | 534,477.56          |
| 36,953 Worcester Railways & Investment Co. stock, no par value.....                                   |              | 3,926,949.97        |
| 102 shares Springfield Street Ry Co. stock, par value \$100.....                                      | 23,000.00    |                     |
| Demand notes of the Springfield Street Ry. Co., bearing interest at 4½ and 5 per cent.....            | 302,000.00   | 325,000.00          |
| 50,000 shares Springfield Ry. Co. common stock, par value \$100.....                                  |              | 1,702,679.97        |
| 9,784 shares Berkshire Street Ry. Co. stock, par value \$100.....                                     | 1,006,235.37 |                     |
| 200 Berkshire Street Ry. Co. 5 per cent debentures.....   | 200,000.00   |                     |
| Demand notes of the Berkshire Street Ry. Co. bearing interest at 5 per cent..                         | 1,100,819.70 | 2,307,055.07        |
| <b>Total.....</b>   |              | <b>9,918,145.65</b> |

The note of the New England Investment & Security Company for \$10,000,000 passed from the Consolidated Railway Company to the New York, New Haven & Hartford Railroad Company and thence to the New England Navigation Company, payments on account being made as follows:

| Item. | Date.         | Payment to—                              | Nature of payment.   | Amount.           |
|-------|---------------|--|--|-------------------|
| 1     | Feb. 7, 1907  | Consolidated Ry. Co.....                 | 200 5 per cent debentures of the Berkshire Street Ry. Co.                    | \$200,000.00      |
| 2     | .....do.....  | .....do.....                             | 224 first mortgage bonds of the Worcester & Southbridge Street Ry. Co.       | 224,640.00        |
| 3     | .....do.....  | .....do.....                             | 200 first mortgage bonds of the Worcester & Blackstone Valley Street Ry. Co. | 200,000.00        |
| 4     | .....do.....  | .....do.....                             | .....  | 6,116.67          |
| 5     | June 29, 1907 | New York, New Haven & Hartford R. R. Co. | Check.....   | 100,000.00        |
| 6     | Oct. 23, 1907 | .....do.....                             | 40 5 per cent debentures of the Uxbridge & Blackstone Street Ry. Co.         | 40,000.00         |
| 7     | Jan. 31, 1908 | .....do.....                             | 5 per cent debentures of the Worcester Consolidated Street Ry. Co.           | 4,243.33          |
|       |               | <b>Total.....</b>                        |  | <b>775,000.00</b> |

Items 1 and 2 were acquired from the Consolidated Railway Company on June 25, 1906, while item 3 was received in exchange for notes of the Worcester & Blackstone Valley Street Railway Company, acquired from the Consolidated Railway Company on June 25, 1906, making a total of \$624,640 in securities acquired by the issuance of the \$10,000,000 note, which were later applied to reduce that note.

Items 1, 2, 3, 6, and 7 were reacquired from the New England Navigation Company as of May 1, 1908 (recorded May 22, 1908), with other securities and obligations in exchange for a note dated May 22, 1908, for \$1,722,653.33.

Item 5 consisted of the cash received from the New England Navigation Company for the purchase of common stock. The amount received, being immediately turned over to the New York, New Haven & Hartford Railroad Company, as a credit on account of this note.

On November 1, 1910, item 1 was resold to the New York, New Haven & Hartford Railroad Company for cash at par.

In February, 1914, item 2 was resold through William A. Reed & Company at 93.33, the amount realized being \$209,059.20. The loss of \$15,580.80 was charged to profit and loss account.

Items 3 and 6 remain in the possession of the New England Investment & Security Company as of March 31, 1914.

Item 7 was part of a block of \$1,200,000 of the debentures of the Worcester Consolidated Street Railway Company; \$1,050,000 of these debentures were in the lot reacquired on May 22, 1908, and were resold within three months, at 99, realizing \$1,039,500. The loss of \$10,500 was charged to profit and loss.

The above payments reduced the amount outstanding on the note for \$10,000,000 given the Consolidated Railway Company on June 25, 1906, to \$9,225,000. This was liquidated on April 1, 1909, by issuing 15-year funding gold notes at par, for the same amount, to the New England Navigation Company, who then held the note.

Details of the \$10,000,000 note transaction are shown on Exhibit F, of the working papers.

*Fifteen-year funding gold notes.*—Fifteen-year funding gold notes, amounting to \$16,250,000 were issued as of April 1, 1909, as follows:

|   |                          |
|---|--------------------------|
| Liquidation of notes payable.....   | \$14,210,153.33          |
| Stocks and bonds of subsidiary companies, with accrued interest thereon.....  | 939,000.00               |
| Notes of subsidiary companies, with accrued interest thereon.....   | 110,500.00               |
| The Rhode Island Co.'s advances to the Interstate Consolidated Street R. y. Co. and the<br>Attleborough Branch Railroad Co., for improvements and expenses..... | 163,500.00               |
| Accrued interest on notes payable.....  | \$391,846.67             |
| Guaranteed dividend on preferred stock, paid by the New York, New Haven &<br>Hartford R. R. Co., and interest thereon.....                                      | 302,000.00               |
| Sold for cash.....  | 693,846.67<br>133,000.00 |
| Total.....  | 16,250,000.00            |

Attention is called to the issuance of gold notes for interest and dividend obligations, amounting to \$693,846.67.

The notes payable which were liquidated, amounting to \$14,210,153.33, were all the notes outstanding at this time, and were concentrated in the hands of the New England Navigation Company, a creature of the New York, New Haven & Hartford Railroad Company.

The gold notes were issued at par to the following companies:

|                                   |                 |
|-----------------------------------|-----------------|
| New England Navigation Co.:       |                 |
| Notes payable.....                | \$14,210,153.33 |
| Accrued interest.....             | 391,997.02      |
| Total.....                        | 14,602,150.35   |
| Less cash payment.....            | 150.35          |
| Net.....                          | 14,602,000.00   |
| Cash received for gold notes..... | 133,000.00      |
|                                   | \$14,735,000.00 |

|   |              |            |               |
|---|--------------|------------|---------------|
| New York, New Haven & Hartford Railroad Co.:                        |              |            |               |
| Advances for payment of guaranteed dividend on preferred stock..... | \$277,968.00 |            |               |
| Accrued interest.....   | \$24,097.03  |            |               |
| Less cash.....  | 65.03        |            |               |
|   |              | 24,032.00  |               |
| Stocks and bonds of the Worcester & Webster Street Ry. Co.          |              |            |               |
| and the Webster & Dudley Street Ry. Co.....                         | 337,458.45   |            |               |
| Accrued interest.....   | 2,145.96     |            |               |
| Total.....  | 339,604.41   |            |               |
| Less cash.....  | 604.41       |            |               |
|   |              | 339,000.00 |               |
|   |              |            | \$641,000.00  |
| The Rhode Island Co.:   |              |            |               |
| Stock of Interstate Consolidated Street Ry. Co.....                 | 500,000.00   |            |               |
| Note of same company.....   | 100,000.00   |            |               |
| Accrued interest on note.....                                       | 10,500.00    |            |               |
| Advances to same company for improvements and expenses..            | 151,361.25   |            |               |
|   |              | 761,861.25 |               |
| Stock of the Attleborough Branch Railroad Co.....                   | 100,000.00   |            |               |
| Advances to same company for improvements and expenses..            | 12,717.21    |            |               |
|   |              | 112,717.21 |               |
| Total.....  |              | 874,578.46 |               |
| Less cash payment.....  |              | 578.46     |               |
|   |              |            | 874,000.00    |
| 15-year funding gold notes issued.....                              |              |            | 16,250,000.00 |

Of the securities received, as noted above, the New England Investment & Security Company still held, as of March 31, 1914, the stocks, bonds, and notes of the Worcester & Webster Street Railway Company, also the Attleborough Branch Railroad Company, the Webster & Dudley Street Railway Company, and the Interstate Consolidated Street Railway Company. The advances, for improvements and expenses, to the Interstate Consolidated Street Railway Company were transferred to an open account against that company. On May 31, 1909, the balance in this open account was \$139,576.34, and this balance, with other items, was liquidated on that date by the receipt of the Interstate Consolidated Street Railway Company's note for \$160,000. On March 31, 1914, this note was still in the possession of the New England Investment & Security Company.

Of the total issue of \$16,250,000 in gold notes, there have been redeemed and destroyed \$2,541,000, leaving as outstanding the remainder, or \$13,709,000.

On June 30, 1910, the investment in the stock of the Berkshire Street Railway Company, consisting of 19,288 shares, with a par value of \$100 each, was sold to the New York, New Haven & Hartford Railroad Company at the book value of \$2,891,226.88. Payment was made by check for \$2,391,226.88, and the assumption by the New York, New Haven & Hartford Railroad Company of two of the Security Company's notes payable, for \$250,000 each, held by the Old Colony Trust Company, and the First National Bank of Boston, Mass., respectively.

On July 7, 1910, the Billard Company was given a check by the New England Investment & Security Company for \$2,391,000, on the Old Colony Trust Company of Boston, Mass., in exchange for 2,391 fifteen year funding gold notes of the New England Investment & Security Company, these notes being purchased at par, and for redemption.

The accrued interest on these gold notes was paid to the Billard Company on the same date by a check of the New England Investment & Security Company, for \$19,128, on the New England Trust Company.

The New England Investment & Security Company's investment in the stock of the Central Massachusetts Electric Company, consisting of 1,500 shares, par value \$100 each, was sold on November 15, 1911, for \$150,000 cash.

The records of the New England Investment & Security Company do not show the purchaser of this stock, but President J. T. Harmer stated that it was sold to Mr. Samuel Hemingway, the treasurer of the Billard Company. Whether Mr. Hem-

ingway bought this stock in the name of the Billard Company or otherwise, Mr. Harmer was unable to say definitely, but both he and treasurer Leverett Candee believed it to have been for the Billard Company.

On the same date, November 15, 1911, the Billard Company was given a check by the New England Investment & Security Company for \$150,562.50 on the New England Trust Company of Boston, Mass., in exchange for 150 fifteen-year funding gold notes, which were purchased at par and accrued interest, for redemption.

The book value of the Central Massachusetts Electric Company stock was \$106,698.21, and its sale at \$150,000 resulted in a profit of \$43,301.79, which was credited to profit and loss account.

A later investigation of the New England Navigation Company's books showed that all of the outstanding 15-year funding gold notes of the New England Investment & Security Company, par value \$13,709,000, were in the possession of the former company, at a cost of \$13,631,750, as follows:

| Date secured.                         | Par value.  | Cost.       |
|---------------------------------------|-------------|-------------|
| Apr. 11, 1913 .....                   | \$3,000,000 | \$3,000,000 |
| May 26, 1913 (at 75) .....            | 309,000     | 231,750     |
| Mar., 1914 (journal entry 1105) ..... | 10,400,000  | 10,400,000  |
| Total .....                           | 13,709,000  | 13,631,750  |

Payment was made to the Billard Company for the first item by surrender of that company's notes to the value of \$1,400,000 and indorsing over to them a check from the Farmer's Loan & Trust Company for \$1,600,000.

In payment for the second item the Billard Company was given check No. 981 for \$233,166.25, which included \$1,416.25 for accrued interest.

The third item covers an exchange, payment being made in Billard Company's notes, at par.

It should be noted that within one and one-half months after paying par for the first lot of these notes, the second lot were purchased at 75, while the remainder were purchased at par within the year.

For detail, see Exhibit G of the working papers.

*Attleborough Branch Railroad Company—Stock.*—On April 3, 1909, 1,317 shares of this stock, par value \$100 each, were taken over from the Rhode Island Company at a valuation of \$100,000, and with other securities making a total of \$874,578.46, were settled for on that date by the issuance of 15-year funding gold notes for \$874,000 and \$578.46 in cash.

This stock remained on hand as of March 31, 1914, as shown on Exhibit H1 of the working papers.

*Berkshire Street Railway Company—Stock.*—Between January, 1907, and May, 1910, 19,288 shares of this stock were acquired, as follows:

| Shares. | From—                         | Exchanged for—   | Cost.          |
|---------|-------------------------------|--|----------------|
| 9,784   | Consolidated Ry. Co. ....     | Notes payable (\$10,000,000 note) .....  | \$1,006,235.37 |
| 3,994   | Berkshire Street Ry. Co. .... | Note of Berkshire Street Ry. Co. ....  | 733,933.00     |
| 2,462   | do. ....                      | Note of Berkshire Street Ry. Co. and interest .....  | 246,200.00     |
| 38      | .....                         | Consolidated Ry. Co.'s scrip and accrued interest .....                                      | 3,842.09       |
| 10      | C. S. Mellen .....            | 10 shares New England Investment & Security Co.'s preferred stock and accrued dividend ..... | 1,016.42       |
| 3,000   | Not shown .....               | 3,000 shares Pittsfield Electric Street Ry. Co. stock at cost .....                          | 900,000.00     |
| 19,288  | Total .....                   | .....  | 2,891,226.88   |



The entire 19,288 shares were sold to the New York, New Haven & Hartford Railroad Company on June 30, 1910, at the book value shown above. This gives a price per share approximating \$149.90. The payment consisted of cash for \$2,391,226.88, and the assuming by the New Haven Company of two notes of the New England Investment & Security Company, held by the First National Bank of Boston, Mass., and the Old Colony Trust Company of Boston, Mass., respectively, for \$250,000 each.

The cash item of \$2,391,000 was promptly applied in the redemption of 15-year funding gold notes, as noted previously in this report. Detail is shown in Exhibit H2, schedule 1, of the working papers.

*Berkshire Street Railway Company 5 per cent debentures of 1925.*—On June 25, 1906, 200 debenture bonds of this company, par value \$1,000 each, due March 1, 1925, and bearing interest at 5 per cent per annum, were acquired from the Consolidated Railway Company as a part of the \$10,000,000 note transaction, but were returned to that company on February 7, 1907, to apply as a credit on account of the same note. On May 22, 1908, the same bonds were reacquired from the New England Navigation Company (the transaction being effective as of May 1, 1908), with other securities, in exchange for the New England Investment & Security Company's note dated May 22, 1908, for \$1,722,653.33. These bonds were sold to the New York, New Haven & Hartford Railroad Company for cash, at par, on November 1, 1910.

Detail is shown on Exhibit H2, schedule 2, of the working papers.

*Berkshire Street Railway Company notes.*—Notes to the amount of \$1,100,819.70 were acquired from the Consolidated Railway Company on June 25, 1906, as a part of the \$10,000,000 note transaction, and between September 13, 1906, and November 3, 1910, \$515,000 additional had been loaned to the Berkshire Street Railway Company on its notes.

These loans were liquidated by the payment of \$636,067 in cash, and the remainder of \$979,752.72, with accrued interest of \$380.28, by exchange for 6,456 shares of the capital stock of the Berkshire Street Railway Company, par value \$100 each.

No criticism is made of the Berkshire Street Railway Company for discounting its own notes in making this exchange for capital stock, as the New York, New Haven & Hartford Railroad Company subsequently took over at its book value all the holdings of the New England Investment & Security Company in the Berkshire Street Railway Company.

Detail is shown in Exhibit H2, schedule 3, of the working papers.

*Central Massachusetts Electric Company stock.*—A total of 1,484 shares of this stock, par value \$100 each, were received in exchange for preferred stock of the New England Investment & Security Company and stock of the New York, New Haven & Hartford Railroad Company, as follows:

| Shares. | Received in exchange for—  | Book value. |
|---------|--|-------------|
| 875     | 610 shares preferred stock of the New England Investment & Security Co.....  | \$61,000.00 |
| 609     | 214 shares of New York, New Haven & Hartford R. R. Co. stock.....            | 42,752.16   |
|         | Accrued dividends and commissions on preferred stock exchanged as above..... | 982.78      |
|         | Accrued dividends on New York, New Haven & Hartford R. R. Co. stock.....     | 247.02      |
| 16      | Bought from Wm. Skinner, for cash.....                                       | 1,716.25    |
| 1,500   | Total.....   | 106,698.21  |

These 1,500 shares were sold on November 15, 1911, for the sum of \$150,000; but the records of this company do not disclose the identity of the purchaser. President J. T. Harmer stated that the sale was made to Mr. Samuel Hemingway, treasurer of the Billard Company, but whether Mr. Hemingway purchased it in the name of the Billard Company, or otherwise, he was unable to say definitely, though both he (Harmer) and Treasurer Leverett Candee believed it to have been for the Billard Company.

The amount of \$150,000 realized from the sale was immediately paid over to the Billard Company for redemption at par of 150 fifteen-year funding gold notes of the New England Investment & Security Company's issue.

The sale of this stock for \$150,000 resulted in a profit of \$43,301.79, which was credited to profit and loss account.

Detail is shown in Exhibit H3 of the working papers.

*The Consolidated Railway Company 3, 3½, and 4 per cent debentures and scrip.*—On November 14, 1906, the New England Investment & Security Company purchased from the Consolidated Railway Company \$20,600 par value of these debentures, at par, for cash.

*The Consolidated Railway Company 3, 3½, and 4 per cent debentures and scrip.*—On January 15, 1907, \$100 of these debentures was given in exchange for one share of Berkshire Street Railway Company stock, par value \$100.

On June 10, 1907, F. Augs. Schermerhorn, of 25 Liberty Street, New York, was given debentures par value \$3,000 and scrip \$500 in exchange for 35 shares of Berkshire Street Railway Company stock, par value \$3,500.

On July 19, 1907, Luther W. Bradley was given scrip par value \$200 in exchange for 2 shares of Berkshire Street Railway Company stock, par value \$200.

The balance of \$16,800 remained in the possession of the New England Investment & Security Company on March 31, 1914. See detail on Exhibit H4 of the working papers.

*The Electric Express Company stock.*—On July 10, 1907, 200 shares of this stock, constituting the whole issue, were bought for cash at the par value of \$100 per share.

The property was afterwards sold and upon liquidation there remained cash assets of \$40,924.56 which were turned over to the New England Investment & Security Company.

The above shows an apparent profit of \$20,924.56, but without going into the records of the Electric Express Company it could not be shown whether this includes accrued and undivided earnings or was merely an advance in the selling price of the property over the amount paid for it. Officials of the New England Investment & Security Company stated that the sale was made to the operating companies, and if there was any inflation in the selling price it will of course be an offset to this apparent profit to the holding company and a corresponding inflation of assets for the new owners. See detail Exhibit H5 of the working papers.

*Electric Manufacturing Company notes.*—Between January 14 and April 26, 1907, \$90,000 was loaned to that company on its notes, which were paid on October 1, 1907.

Moody's Manual does not show the Electric Manufacturing Company, but lists the Worcester Railways & Investment Company as owning 6,500 shares of its stock and \$330,000 of its 5 per cent mortgage bonds. See detail on Exhibit H6 of the working papers.

*Hartford & Worcester Street Railway Company stock.*—On October 11, 1906, 2,999 rights (out of a total of 3,000) were purchased by issuance of notes payable for \$75,000. This note was liquidated on April 3, 1909, by the issuance of 15-year funding gold notes at par. An assessment on capital stock at \$20 per share was called on April 11, 1908, the amount of the assessment being \$59,980.

The Hartford & Worcester Street Railway Company was sold to the Worcester & Southbridge Street Railway Company and  $\frac{2,999}{3,000}$  of the amount received in liquidation, or \$61,585.73, was turned over on May 20, 1910, to the New England Investment & Security Company. Regarding the balance of \$73,394.27 Journal Entry No. 479 bears this notation:

NOTE.—The railroad commissioners fixed the sale price of the property of the Hartford & Worcester at a lower figure than the cost, consequently the Hartford & Worcester Company was unable to make good to its subscribers the full amounts paid in on their subscriptions and as the Hartford & Worcester has now become a part of the Worcester & Southbridge Street Railway Company, all of whose stock is owned

by the New England Investment & Security Company, the latter company's investment in the Worcester & Southbridge Street Railway Company is increased to the extent of the above amount.

The above shows that while the railroad commissioners ruled as to the valuation of the property the New England Investment & Security Company, instead of charging the difference of \$73,394.27 to profit and loss, still retain it in their investment accounts See detail on Exhibit H7 of the working papers.

*Interstate Consolidated Street Railway Company stock.*—Two thousand seven hundred and fifty shares with a par value of \$100 each were taken over from the Rhode Island Company, at a valuation of \$500,000, and with other securities, making a total of \$874,578.46, were settled for on April 3, 1909, by the issuance of 15-year funding gold notes to the amount of \$874,000, par value, and cash for \$578.46. This stock is still held by the New England Investment & Security Company. See detail on Exhibit H8 of the working papers.

*Interstate Consolidated Street Railway Company notes.*—In April, 1909, the New England Investment & Security Company took over from the Rhode Island Company with the purchase of that company's interest in the Interstate Consolidated Street Railway Company—

|  |              |
|--|--------------|
| The latter company's notes of June 27, 1906, at par for .....  | \$100,000.00 |
| Cash loans were made to the Interstate Consolidated Street Ry. Co. between Apr. 2 and Aug. 25, 1909, covered by notes amounting to ..... | 28,423.66    |
| For an open account covering advances for improvements and expenses taken over from the Rhode Island Co., a note was received for .....  | 139,576.34   |
| <b>Total</b> .....   | 268,000.00   |
| Payments were made of .....  | 8,000.00     |
| Leaving outstanding as of Mar. 31, 1914 .....  | 260,000.00   |

See detail on Exhibit H8, schedule 2, of the working papers.

*Milford, Attleboro & Woonsocket Street Railway Company stock.*—Three thousand one hundred and fifty shares, par value \$100 each, were secured in exchange for—

|  |              |
|--|--------------|
| 1,562 shares of New York, New Haven & Hartford R. R. Co. stock ..... | \$312,052.88 |
| Cash (for fractions of stock) .....                                  | 2,600.00     |
| Accrued dividends on New York, New Haven & Hartford stock .....      | 2,844.72     |
| <b>Total</b> .....   | 317,497.60   |

This stock is still in the possession of the New England Investment & Security Company as of March 31, 1914. See detail on Exhibit H9, schedule 1, of the working papers.

*Milford, Attleboro & Woonsocket Street Railway Company first mortgage 5 per cent bonds.*—On May 28, 1912, 50 bonds of the above company, par value \$50,000, were received in liquidation of notes for the same amount. The notes were for cash loans advanced. These bonds are still held by the New England Investment and Security Company as of March 31, 1914. See detail on Exhibit H9, schedule 2, of the working papers.

*Milford, Attleboro & Woonsocket Street Railway Company notes.*—Between March 13, 1907, and July 31, 1909.

|   |             |
|---|-------------|
| Cash advances were made to the above company amounting to ..... | \$63,000.00 |
| In settlement cash was received for .....                       | 8,000.00    |
| Bonds at par for .....  | 50,000.00   |
| Leaving a balance as of Mar. 31, 1914, of .....                 | 5,000.00    |

See detail on Exhibit H9, schedule 3, of the working papers.

*New England Navigation Company.*—All outstanding notes payable of the New England Investment & Security Company having been acquired by the New England

Navigation Company and amounting with accrued interest to March 31, 1909, as follows:

|  |                 |
|--|-----------------|
| Notes payable of various dates from June 25, 1906, to May 1, 1908..... | \$14,210,153.33 |
| Accrued interest thereon.....  | 391,997.02      |
| Total.....   | 14,602,150.35   |

These notes were retired by the New England Investment & Security Company by giving in exchange therefore 15-year funding gold notes as of April 1, 1909, with a par value of \$14,602,000 and cash for the remainder of \$150.35. See detail on Exhibit H10 of the working papers.

*New York, New Haven & Hartford Railroad Company—Stock.*—5,000 shares of this stock were received on October 11, 1906, in exchange for note payable, the price, less accrued dividend, being \$998,888.89. 72 shares were purchased for cash from the New Haven & Northampton Company for \$9,348.80, and was disposed of as follows:

| Exchanged for—   | Shares. | Amount.      |
|--|---------|--------------|
| 3,069 shares of Milford, Attleboro & Woonsocket Street Ry. Co. stock, par value \$100 each.....      | 1,562   | \$312,052.88 |
| 1,658 shares Springfield Railway Co.'s preferred stock from Lee, Higginson & Co. ....                | 829     | 165,615.78   |
| 1,000 shares Springfield Ry. Co.'s preferred stock from Springfield Fire & Marine Insurance Co. .... | 500     | 99,888.89    |
| 1,032 shares Springfield Ry. Co.'s preferred stock from Frederick Harris et al. ....                 | 516     | 103,083.90   |
| 32 Shares of Springfield & Eastern Street Ry. Co. stock.....   | 17      | 3,398.69     |
| 10 shares Central Massachusetts Electric Co. stock, par value \$100 each.....                        | 11      | 199.77       |
| 1,474 shares of Central Massachusetts Electric Co. stock, par value \$100 each.....                  | 1,213   | 42,552.39    |
| 3,267 shares Springfield & Eastern Street Ry. Co. stock, par value \$100 each.....                   | 1,772   | 154,227.69   |
| Sold for cash.....   | 662     | 90,219.12    |
| Charged profit and loss.....   |         | 36,998.58    |
|  | 5,072   | 1,004,237.69 |

<sup>1</sup> Part payment in New England Investment & Security Co. preferred stock.

The note payable was taken up from the New England Navigation Co. on April 1, 1909, as a part of the lot exchanged for 15-year funding gold notes. See detail on Exhibit H11 of the working papers.

*Pittsfield Electric Street Railway Company—Stock.*—3,000 shares of this stock were purchased as follows:

| Purchased for—  | Shares. | Amount.      |
|---|---------|--------------|
| Two 6 months' notes dated Feb. 10, 1910, for \$250,000 each, bearing 4½ per cent interest, one in favor of the First National Bank, Boston, and the other in favor of the Old Colony Trust Co. of Boston. This stock was purchased through the First National Bank of Boston. The surplus cash received from the issue of these notes was taken up in current-cash account..... | 1,511   | \$490,525.00 |
| Purchased through the Agricultural National Bank of Pittsfield, Mass., for cash, for.....   | 1,489   | 409,475.00   |
|   | 3,000   | 900,000.00   |

These notes for \$500,000 were assumed by the New York, New Haven & Hartford Railroad Company on June 30, 1910, in connection with the purchase of the Berkshire Street Railway Company by the New Haven Company.

The above 3,000 shares of stock costing \$900,000 were surrendered in exchange for an equal number of shares of the Berkshire Street Railway Company with a par value of \$300,000. The surrendered stock of the Pittsfield Electric Street Railway Company was canceled upon sale of the property to the Berkshire Street Railway Company in accordance with order of the Massachusetts Railroad Commission of May 4, 1910. See detail on Exhibit H12, schedule 1, of the working papers.

*Pittsfield Electric Street Railway Company—Notes.*—On March 5 and May 13, 1910, \$35,000 was loaned to this company, secured by notes. The notes were paid in cash on February 13, 1911. See detail on Exhibit H12, schedule 2, of the working papers.



*The Rhode Island Company.*—On April 3, 1909, the Rhode Island Company turned over to the New England Investment & Security Company the following obligations of the Interstate Consolidated Street Railway Company and the Attleborough Branch Railroad Company.

|   |              |
|---|--------------|
| 2,750 shares capital stock of the Interstate Consolidated Street Railway Co., par value \$100 each.                   | \$500,000.00 |
| Demand note of the Interstate Consolidated Street Railway Co., dated June 27, 1906, bearing interest at 6 per cent.   | 100,000.00   |
| Accrued interest on above note from July 1, 1907, to March 31, 1909.  | 10,500.00    |
| Open-book account against Interstate Consolidated Street Railway Co. covering advances for improvements and expenses. | 151,361.25   |
| 1,317 shares of stock of the Attleboro Branch Railroad Co., par value \$100 each.                                     | 100,000.00   |
| Open-book account against the Attleboro Branch Railroad Co. covering advances for improvements and expenses.          | 12,717.21    |
| Total   | 874,578.46   |

Payment was made on the same date, April 3, 1909, by the issuance to the Rhode Island Company of 15-year funding gold notes for \$874,000 and cash for \$578.46.

Of the above obligations the New England Investment & Security Company still retained on March 31, 1914, the stock and notes of the two companies and in addition another note covering \$139,576.34 of the \$151,361.25 in the current account against the Interstate Consolidated Street Railway Company. See detail on Exhibit H13, of the working papers.

*Springfield Railway Companies—Preferred stock.*—Between February 5 and May 31, 1907, 5,703 $\frac{1}{2}$  shares of this stock were acquired as shown below and held for approximately four years, when it was sold through Lee, Higginson & Company, of Boston, Mass.

| Exchanged for—  | Shares.             | Amount.      |
|---|---------------------|--------------|
| 1,845 shares New York, New Haven & Hartford stock.              | 3,690               | \$368,588.00 |
| 3,000 shares of Western Massachusetts Street Railway Co. stock. | 2,000               | 377,002.40   |
| 10 shares Woronoco Street Railway Co. stock.                    | 12                  | 1,200.00     |
| Cash.   | 1 $\frac{1}{2}$     | 138.75       |
|   | 5,703 $\frac{1}{2}$ | 746,929.15   |
| Cash received from sale of stock.                               |                     | 543,708.00   |
| Loss, charged to profit and loss.                               |                     | 203,221.15   |

(Exhibit H14, schedule 1.)

*Springfield Railway Company—Common stock.*—Stock of the above company acquired as follows:

| Analysis of cost.   | Shares. | Amount.        |
|---|---------|----------------|
| Received from Consolidated Railway as part of the securities acquired through issuance of \$10,000,000 note of June 25, 1906.   | 50,000  | \$1,702,679.97 |
| Apparent profit to the Consolidated Railway Co. in exchanging securities with a book value of \$9,918,145.65 for note of the New England Investment & Security Co. for \$10,000,000, the difference of \$81,854.35 being arbitrarily added to the cost of the above stock.  |         | 81,854.35      |
| Cash bonus paid to the holders of 2,490 shares of the Woronoco Street Railway Co. at \$60 per share. The holders of these 2,490 shares exchanged them with the Springfield Railway Co. at the rate of 5 shares of the former for 6 shares of the latter's preferred stock and in addition were paid a cash bonus of \$60 per share by the New England Investment & Security Co. A list of the holders of Woronoco Street Railway Co. stock and the amount of cash bonus received by each is shown on Exhibit H14, schedule 2, sheet 2, of the working papers. |         | 149,400.00     |
| The loss on 10 shares of Woronoco Street Railway Co. stock purchased for \$2,000 and exchanged for 12 shares of Springfield Railway Co.'s preferred stock, par value \$100 each.  |         | 800.00         |
| 8,931 shares of the Springfield & Eastern Street Railway Co. stock, par value \$100 each.   | 17,862  | 896,718.78     |
| Total.  | 67,862  | 2,831,453.10   |

This stock is still in the possession of the New England Investment & Security Company as of March 31, 1914. See detail on Exhibit H14, schedule 2, of the working papers.

*Springfield Street Railway Company—Stock.*—Three thousand three hundred and twenty-six shares of above stock acquired as follows:

| Exchanged for—  | Shares. | Amount.     |
|---|---------|-------------|
| Received from Consolidated Railway Co. as part of the securities exchanged for note for \$10,000,000 dated June 25, 1906.....                               | 102     | \$23,000.00 |
| Subscribed for at 170 and received in exchange for the Springfield Street Railway Co.'s notes payable, less accrued dividend on these shares, net cost..... | 2,964   | 496,964.00  |
| Purchased for cash.....   | 1       | 213.00      |
| Purchased for cash at 330 less accrued dividend, net cost.....  | 259     | 85,322.23   |
| Total.....  | 3,326   | 605,499.23  |

This stock is still in the possession of the New England Investment & Security Company as of March 31, 1914. See detail on Exhibit H15, schedule 1, of the working papers.

*Springfield Street Railway Company—First-Mortgage 4 per cent Bonds.*—Two hundred of these bonds, par value \$200,000, were acquired from that company on May 28, 1912, at 97½ in exchange for the following notes:

|   |             |
|---|-------------|
| Notes of the Western Massachusetts Street Railway Co..... | \$55,000.00 |
| Notes of the Woronoco Street Railway Co.....              | 75,000.00   |
| Notes of the Springfield Street Railway Co.....           | 65,000.00   |
| Total.....  | 195,000.00  |

Some of these notes had been purchased from banks while others were for loans.

On October 15, 1913, these bonds were sold for cash through W. A. Read & Company at 93.33, the amount realized being \$186,660. The difference of \$8,340, representing the loss on the transaction, was charged off as profit and loss. See detail on Exhibit H15, schedule 2, of the working papers.

*Springfield Street Railway Company—Notes.*—These notes consisted of a note for \$302,000 taken over from the Consolidated Railway Company as part of the securities received in exchange for \$10,000,000 note of June 25, 1906, and \$2,175,000, covering cash loans between June 25, 1906, and December 27, 1913.

The following credits were applied:

|   |              |
|---|--------------|
| Paid in cash.....   | \$360,000.00 |
| \$66,666.66½ of first-mortgage 4 per cent bonds of the Springfield Street Railway Co.....           | 65,000.00    |
| 2,964 shares of Springfield Street Railway Co.'s stock, value \$503,880, plus adjustments, \$5,610. | 509,490.00   |
| 5,033 shares Springfield & Eastern Street Railway Co.'s stock.....                                  | 502,510.00   |
|   | 1,437,000.00 |

This leaves unpaid as of March 31, 1914, \$1,040,000. See detail on Exhibit H15, schedule 3, of the working papers.

*Springfield & Eastern Street Railway Company—Stock.*—Eight thousand nine hundred and thirty-one shares of this company's stock were acquired as follows:

| Exchanged for—  | Shares. | Amount.      |
|---|---------|--------------|
| 1,723 shares of New England Investment & Security Co.'s preferred stock, 772 shares New York, New Haven & Hartford Railroad Co.'s stock, plus accrued dividends and commissions to brokers..... | 3,267   | \$328,367.54 |
| 17 shares New York, New Haven & Hartford Railroad Co.'s stock.....  | 32      | 3,373.21     |
| Cash, from Fred. T. Ley.....  | 211     | 19,887.29    |
| Cash, from Harris Burlingame.....   | 6       | 621.20       |
| Cash, from Henry M. Clark.....  | 10      | 1,150.00     |
| Cash, from Henry H. Skinner.....  | 1       | 110.00       |
| Cash, from J. G. Mackintosh.....  | 13      | 1,430.00     |
| Cash, from M. F. Fallon.....  | 20      | 2,100.00     |
| Cash, from Gerrett S. Berry.....  | 76      | 13,300.00    |
| Cash, from Springfield & Eastern Street Railway Co., per order of the Massachusetts Railroad Commission dated Aug. 29, 1907.....  | 262     | 25,987.49    |
| Exchanged for notes of Springfield Street Railway Co. and accrued interest thereon.....   | 5,033   | 500,392.05   |
| Total.....  | 8,931   | 896,718.78   |

This stock was exchanged for 17,862 shares of common stock of the Springfield Railway Companies, par value \$100 each, per trustees' vote of April 27, 1910. See detail on Exhibit H16, schedule 1, of the working papers.

*Springfield & Eastern Street Railway Company—Notes.*—A demand note of the above named company for \$35,233.32 dated November 9, 1905, and bearing interest at 5 per cent, was purchased for cash at face value and accrued interest, from the Springfield Street Railway Company on September 16, 1907. This note still remained unpaid as of March 31, 1914. See detail, Exhibit H16, schedule 2, of the working papers.

*Webster & Dudley Street Railway Company—Stock.*—Five hundred shares of this stock, par value \$100 each, purchased from the New York, New Haven & Hartford Railroad Company as of March 31, 1909, for \$49,958.33. This stock was still on hand as of March 31, 1914. See detail on Exhibit H17, schedule 1, of the working papers.

*Webster & Dudley Street Railway Company—First mortgage bonds.*—Of these bonds \$30,000 par value were purchased from the New York, New Haven & Hartford Railroad Company as of March 31, 1909, at a valuation of \$33,897.75, and accrued interest; and, with other securities making a total of \$339,604.41 were settled for on April 3, 1909, by the issuance of 15-year funding gold notes for \$339,000 and cash for \$604.41. See detail on Exhibit H17, schedule 2, of the working papers.

*Western Massachusetts Street Railway Company—Stock.*—Three thousand shares of this stock were acquired, as shown below:

| Exchanged for—   | Shares. | Amount.      |
|--|---------|--------------|
| 3,000 shares of preferred stock of the New England Investment & Security Co. exchanged with the following parties:   |         |              |
| R. D. Gillett, of Westfield, Mass.....   | 2,494   | \$249,400.00 |
| A. W. Eaton, Pittsfield, Mass.....   | 505     | 50,500.00    |
| A. D. Robinson.....  | 1       | 100.00       |
| Par value of 30 shares preferred stock of the New England Investment & Security Co. issued to Mackay & Co. as commission on issuance of 3,000 shares of preferred stock shown above..... |         | 3,000.00     |
| Accrued dividend on these 3,030 shares of preferred stock.....   |         | 1,798.98     |
| Cancellation of \$75,000 on note of the Western Massachusetts Street Railway Co. dated Oct. 24, 1906.....  |         | 75,000.00    |
| Total.....   | 3,000   | 379,798.98   |

The item of \$75,000 charged to the book value of this company's stock was charged herein in lieu of a charge to profit and loss when upon the refusal of the Massachusetts Railroad Commission to approve the consolidation of the Western Massachusetts and

the Woronoco Street Railway Companies until outstanding indebtedness of the Western Massachusetts Street Railway Company amounting to \$75,000 had been canceled. See detail on Exhibit H18, schedule 1, of the working papers.

*Western Massachusetts Street Railway Company—Notes.—*

|  |              |
|--|--------------|
| Notes of this company were purchased from banks amounting to.....  | \$137,500.00 |
| Additional cash advances were made amounting to.....   | 24,500.00    |
| Total.....   | 162,000.00   |
| Settlement was made as follows:  |              |
| Paid in cash.....  | \$32,000.00  |
| Canceled and added to the cost of capital stock of the same company.....                                     | 75,000.00    |
| Exchanged for \$56,410.25 $\frac{3}{4}$ of Springfield Street Railway Co. first mortgage 4 per cent bonds... | 55,000.00    |
| Total.....   | 162,000.00   |

See detail on Exhibit H18, schedule 2, of the working papers.

*Worcester Consolidated Street Railway Company—5 per cent debentures of 1927.*—On January 31, 1908, 1,200 of these bonds were received at par in exchange for notes of that company covering cash advances.

On the same date these bonds were turned over to the New York, New Haven & Hartford Railroad Company in liquidation of sundry notes payable.

On May 22, 1908, 1,050 of these bonds were acquired at par from the New England Navigation Company as part of a lot of securities received in exchange for a note of the New England Investment & Security Company dated May 22, 1908, for \$1,722,653.33. These debentures were sold to Merrill Oldham & Company between May 23 and August 14, 1908, for cash at 99, the price realized being \$1,039,500. The difference between this and the purchase price, \$10,500, was charged to profit and loss. See detail on Exhibit H19, schedule 1, of the working papers.

*Worcester Consolidated Street Railway Company—Notes.*—Cash advances were made to that company from time to time, amounting to \$2,655,500.

The following credits were applied:

|   |              |
|---|--------------|
| Paid in cash.....                               | \$50,000.00  |
| Liquidated in bonds of that company at par..... | 1,200,000.00 |
| Total.....                                      | 1,250,000.00 |

This leaves a balance unpaid as of March 31, 1914, \$1,405,500.

See detail on Exhibit H19, schedule 2, of the working papers.

*Worcester Railways & Investment Company—Stock.*—Of this stock, 87,144 shares, no par value, were acquired at a cost of \$8,854,335.95, as shown below:

| Exchanged for—  | Shares. | Amount.        |
|---|---------|----------------|
| Received from the Consolidated Railway Co. as part of the securities exchanged for \$10,000,000 note of June 25, 1906, less accrued dividend.....         | 36,953  | \$3,904,367.58 |
| Purchased for cash, less accrued dividend.....  | 39      | 3,625.88       |
| Cash subscriptions to increase in capital stock at 90, less accrued dividend.....   | 4,779   | 427,373.93     |
| 28,829 shares of preferred stock exchanged at 20 for 21, plus accrued dividends and commission of \$46,992 paid to brokers, and other minor expenses..... | 27,470  | 2,932,262.80   |
| 8,900 shares Worcester & Southbridge Street Railway Co. stock.....  | 12,237  | 1,117,038.47   |
| 3,620 shares Worcester & Blackstone Valley Street Railway Co.....   | 5,656   | 469,667.29     |
| Total.....  | 87,134  | 8,854,335.95   |

This stock remained on hand as of March 31, 1914. See detail on Exhibit H20, schedule 1, of the working papers.

*Worcester Railways & Investment Company—Loan Account.*—Seven hundred and fifty shares of Worcester Railways & Investment Company stock were loaned to that company on January 1, 1908, to enable them to acquire the capital stock of the Worcester & Holden Street Railway Company by exchange therefor on basis of one share



of the former for two shares of the latter. On February 24, 1911, this stock was returned to the New England Investment & Security Company, who during the period of the loan received the dividends upon the 750 shares. See detail on Exhibit H20, schedule 2, of the working papers.

*Worcester & Blackstone Valley Street Railway Company—Stock.*—Of this stock 3,620 shares were acquired, as follows:

| Exchanged for—   | Shares. | Amount.      |
|--|---------|--------------|
| Received from the Consolidated Railway Co. as part of the securities acquired by issuance of \$10,000,000 note of June 25, 1906..... | 2,000   | \$277,400.89 |
| 1,200 shares of Uxbridge & Blackstone Street Railway Co. stock.....  | 1,200   | 150,266.40   |
| Subscribed to and paid in cash at par on Dec. 21, 1910.....  | 420     | 42,000.00    |
| Total.....   | 3,620   | 469,667.29   |

The 3,620 shares were transferred to the Worcester Railways & Investment Company on February 24, 1911, in exchange for 5,656 shares of that company's stock, no par value, per note of the trustees of the New England Investment & Security Company of February 16, 1911. See detail on Exhibit H21, schedule 1, of the working papers.

*Worcester & Blackstone Valley Street Railway Company—First mortgage 4½ per cent bonds.*—Two hundred of these bonds, par value \$1,000 each, were received on February 7, 1907, in exchange for notes of that company and were surrendered to the Consolidated Railway Company on the same date as a credit on account of \$10,000,000 note of June 25, 1906.

The same bonds were reacquired from the New England Navigation Company on May 22, 1908, as part of a lot of securities received in exchange for a note of the same date for \$1,722,653.33. These bonds were still on hand as of March 31, 1914. See detail on Exhibit H21, schedule 2, of the working papers.

*Worcester & Blackstone Valley Street Railway Company—Notes.*—Notes of this company were received from the Consolidated Railway Company as part of a lot of securities acquired in exchange for \$10,000,000 note of June 25, 1906, amounting to \$257,076.67. Additional advances were made amounting to \$318,000, making a total of \$575,076.67. The following credits were applied:

|   |              |
|---|--------------|
| Paid in cash.....                               | \$112,076.67 |
| Exchanged for bonds of that company at par..... | 200,000.00   |
| Total.....                                      | 312,076.67   |

This leaves a balance unpaid as of March 31, 1914, of \$263,000. See detail on Exhibit H21, schedule 3, of the working papers.

*Worcester & Holden Street Railway Company—Notes.*—Cash advances were made to this company between January 15 and March 31, 1908, totaling \$65,000, settlement being made in cash on October 5, 1912. See detail on Exhibit H22 of the working papers.

*Worcester & Southbridge Street Railway Company—Stock.*—Of the stock of this company 8,900 shares were acquired as follows:

| Exchanged for—  | Shares. | Amount.      |
|---|---------|--------------|
| Part of lot of securities received from the Consolidated Railway Co. in exchange for a \$10,000,000 note of June 25, 1906.....  | 7,000   | \$750,973.75 |
| Notes receivable.....   | 500     | 50,000.00    |
| Cancellation of loan.....   | 1,400   | 140,000.00   |
| Excess of cost over liquidation of the Hartford & Worcester Street Railway Co., arbitrarily added to the cost of this stock.....  |         | 73,394.27    |
| Amount of two notes against the Worcester & Southbridge Street Railway Co., canceled for the purpose of eliminating a deficit in that company's profit and loss account prior to May 25, 1904, the date of acquisition of this property. This amount was arbitrarily added to the cost of this stock..... |         | 102,670.45   |
| Total.....  | 8,900   | 1,117,038.47 |

The 8,900 shares of this stock were exchanged on February 24, 1911, for 12,237 shares of stock of the Worcester Railways & Investment Company, no par value. See detail on Exhibit H23, schedule 1, of the working papers.

*Worcester & Southbridge Street Railway Company—First mortgage 4½ per cent bonds of 1922.*—Twenty-four of these bonds were received on June 25, 1906, from the Consolidated Railway Company as part of a lot of securities exchanged for \$10,000,000 note at the book value of \$24,240, and were returned to the Consolidated Railway Company on February 7, 1907, to apply as a credit on account of the same note. On May 22, 1908, they were reacquired from the New England Navigation Company together with other securities in exchange for a note for \$1,722,653.33, at the same book value of \$24,240. In February, 1914, they were sold through William A. Reed & Company at 93.33, realizing \$22,399.20, the difference of \$1,840.80 being charged to profit and loss. See detail on Exhibit H23, schedule 2, of the working papers.

*Worcester & Southbridge Street Railway Company—First mortgage 4½ per cent bonds of 1925.*—Two hundred of these bonds were received from the Consolidated Railway Company as part of a lot of securities exchanged for \$10,000,000 note of June 25, 1906, at book value of \$200,400, and were returned to the Consolidated Railway Company on February 7, 1907, to apply as a credit on this note. On May 22, 1908, they were reacquired from the New England Navigation Company together with other securities in exchange for a note for \$1,722,653.33 at the same book value of \$200,400. In February, 1914, they were sold through William A. Reed & Company at 93.33, realizing \$186,660, the difference of \$13,740 being charged to profit and loss. See detail on Exhibit H23, schedule 3, of the working papers.

*Worcester & Southbridge Street Railway Company—Notes.*—Notes of this company were received from the Consolidated Railway Company as part of a lot of securities received in exchange for a \$10,000,000 note of June 25, 1906, amounting to \$146,369.33. Cash advances were made of \$215,000, the total amount being \$361,369.33. The following credits were applied:

|  |             |
|--|-------------|
| Paid in cash.....  | \$68,698.88 |
| Exchanged for stock of this company at par.....                  | 190,000.00  |
| Canceled and added to cost of capital stock of this company..... | 102,670.45  |
| Total.....   | 361,369.33  |

See detail on Exhibit H23, schedule 4, of the working papers.

*Worcester & Webster Street Railway Company—Stock.*—Of this stock, 1,500 shares, par value \$100 each, were purchased from the New York, New Haven & Hartford Railroad Company as of March 31, 1909, at a valuation of \$147,486.15, and, with other securities, making a total of \$339,604.41, were settled for on April 3, 1909, by the issuance of 15-year funding gold notes for \$339,000 and cash for \$604.41. See detail on Exhibit H24, schedule 1, of the working papers.

*Worcester & Webster Street Railway Company—First mortgage bonds.*—Of these bonds, \$94,000 par value were purchased from the New York, New Haven & Hartford Railroad Company in connection with the purchase of capital stock noted above at a valuation of \$105,919.22 and settled for in the same manner as for capital stock. See detail on Exhibit H24, schedule 2, of the working papers.

*Woronocho Street Railway Company—Stock.*—Ten shares of this stock were purchased from Moses Fox, of Hartford, Conn., at \$200 per share, amount \$2,000. The 10 shares were exchanged for 12 shares of Springfield Railway Companies stock, par value \$100 each, amount \$1,200, on May 22, 1907. The balance of \$800 remaining in this account was added to the cost of Springfield Railway Companies common stock. See detail on Exhibit H25, schedule 1, of the working papers.

*Woronoco Street Railway Company—Notes.*—Notes of this company were purchased from banks for \$70,000. Additional cash advances were made amounting to \$5,000, making a total of \$75,000. On May 28, 1912, these notes were exchanged for \$76,923.07½ of the first mortgage 4 per cent bonds of the Springfield Street Railway Company. See detail on Exhibit H25, schedule 2, of the working papers.

*Uxbridge & Blackstone Street Railway Company—Stock.*—One thousand two hundred shares, constituting the total issue of this company's stock, were acquired from various individuals in exchange for the following securities:

|  |              |
|--|--------------|
| 1,437 shares of preferred stock of the New England Investment & Security Co., at par.....                  | \$143,700.00 |
| Cash for fractional shares and bonus.....  | 267.00       |
| Accrued dividends on preferred stock.....  | 2,929.40     |
| Commission to W. H. Tylee, paid in 20 shares of New England Investment & Security Co. preferred stock..... | 2,000.00     |
| Commission paid to Mackay & Co., 13⅞ shares preferred stock.....   | 1,370.00     |
| Total cost of 1,200 shares.....  | 150,266.40   |

The 1,200 shares were exchanged for capital stock of the Worcester & Blackstone Valley Street Railway Company on December 31, 1909. See detail on Exhibit H26, schedule 1, of the working papers.

*Uxbridge & Blackstone Street Railway Company 5 per cent debentures of 1927.*—Forty of the above bonds, par value \$1,000 each, were acquired from the New England Navigation Company on May 22, 1908, with other securities, in exchange for a note dated May 22, 1908, for \$1,722,653.33, at a cost of \$40,000. These bonds were still on hand as of March 31, 1914. See detail on Exhibit H26, schedule 2, of the working papers.

*Profit and loss account.*—The net result of operations to March 31, 1914, shows—

|  |              |
|--|--------------|
| Deficit for years 1907 and 1908.....                   | \$415,039.66 |
| Deficit for year 1909.....                             | 148,334.26   |
| Income for year 1910.....                              | 34,676.39    |
| Income for year 1911.....                              | 52,925.99    |
| Income for year 1912.....                              | 78,195.05    |
| Income for year 1913.....                              | 108,334.55   |
| Income for part of year 1914.....                      | 78,842.56    |
| Adjustment of accrued interest, June 25-30, 1906.....  | 2,482.52     |
| Loss on securities sold:                               |              |
| Preferred stock of this company.....                   | 47,122.78    |
| New York, New Haven & Hartford Railroad Co. stock..... | \$37,374.89  |
| Worcester Consolidated Street Railway Co. bonds.....   | 10,500.00    |
| Springfield Railway Co.'s preferred stock.....         | 203,221.15   |
| Worcester & Southbridge Street Railway Co. bonds.....  | 15,580.80    |
| Springfield Street Railway Co. bonds.....              | 8,340.00     |
|  | 275,016.84   |
| Profit on securities sold:                             |              |
| Central Massachusetts Electric Co. stock.....          | 43,301.79    |
| Electric Express Co.....                               | 20,924.56    |
|  | 4,226.35     |
| Deficit as of Mar. 31, 1914.....                       | 470,795.17   |

For detail of the profit and loss account, see Exhibits K and L of the working papers.

While the amount charged to legal expenses by the New England Investment & Security Company since its organization was only \$42,921.32, the total vouchered by them was \$167,114.39, and nearly all, or \$165,408.49, was paid to the firm of Warren, Garfield, Whiteside & Lamson. Mr. Bentley W. Warren, the senior member of this firm, was a trustee of the New England Investment & Security Company for the year 1909. See detail on Exhibit K, sheets 6, 7, and 8, of the working papers.

The salaries and compensation paid the various trustees and officers are shown in detail on Exhibit K, sheets 8 and 9, of the working papers. Mr. C. S. Mellen was paid \$5,000 for "services and expenses to June 30, 1908."

*Balance sheet, March 31, 1914.*—All of the securities owned and the loans and notes held have been previously referred to under the various headings, and a list of these, including all balance-sheet items, is shown on Exhibit L of the working papers.

*Senate Document No. 316, of the Commonwealth of Massachusetts.*—This is a report of the attorney general of the State of Massachusetts, made as of January 29, 1912, concerning the legal status and control of the New England Investment & Security Company, and is shown as Exhibit M of the working papers.



EXHIBIT E.

CORRESPONDENCE AND REPORT OF EXAMINER ON THE INVESTIGATION OF MORGAN  
& Co.'s Books.

[Telegram.]

WASHINGTON, May 26, 1914.

J. P. MORGAN,

*Wall Street, New York, N. Y.:*

Our attention has just been called to your statement contained in the morning papers with respect to the New Haven investigation and particularly to that portion of your statement in which you say "The records of my firm and the personal records of my father are still intact; they are available and ready for production before any proper tribunal at any time." The commission desires to avail itself of this offer and will be pleased to send its examiners to your office for the purpose indicated to-morrow if that will suit your convenience and will thank you to wire me.

C. C. McCHORD, *Commissioner.*

---

[Telegram.]

NEW YORK, May 26, 1914.

C. C. McCHORD,

*Commissioner Interstate Commerce Commission, Washington, D. C.:*

Your telegram received. In order to facilitate matter please immediately have your counsel communicate with our counsel, Francis Lynde Stetson, on 15 Broad Street, so that they can together arrange promptly for the production of the records as offered. We should expect that all of the evidence thus produced would become a part of your records.

J. P. MORGAN.

---

JULY 3, 1914.

J. P. MORGAN, Esq.,

*Wall Street, New York City.*

DEAR SIR: I have your favor of June 24, in regard to the matters mentioned in my letter of June 18, all of which will receive careful consideration by the commission.

Yours, very truly,

C. C. McCHORD, *Commissioner.*

---

JULY 6, 1914.

Mr. DAVID E. BROWN,

*Hotel McAlpin, New York, N. Y.*

DEAR SIR: On June 18 last I wrote to J. P. Morgan:

"On May 26 last I sent you the following telegram:

"Our attention has just been called to your statement contained in the morning newspapers with respect to the New Haven investigation, and particularly to that portion of your statement in which you say "The records of my firm and the personal records of my father are still intact; they are available and ready for production before any proper tribunal at any time." The commission desires to avail itself of this offer and will be pleased to send its examiners to your office for the purpose indicated to-morrow if that will suit your convenience and will thank you to wire me."

"In answer to this you wired me asking that the counsel for the commission meet your counsel and arrange for the examination. The chief counsel for the commission accordingly had a conference with Mr. Stetson, your counsel, in New York regarding the examination of the records of your firm and the personal records of your father, in pursuance of the offer made by you in your public statement. The accountants of the commission thereupon proceeded to your office, but instead of being allowed free access to the books and papers concerning the transactions of the New Haven Railroad and of its subsidiaries they have been denied such access and have been obliged to call for such information as they could designate, and when an item was shown them all other items except the specific one named have been covered up, and all information concerning the financial transactions of the New Haven Railroad, or any of its subsidiaries, with J. P. Morgan & Co., or J. P. Morgan, has been refused where a third person was involved in such transactions. This is not the character of examination I understood from your statement you were willing for our accountants to make, and it is not an examination upon which any conclusion can be based by the commission as to what your books do or do not show.

"In view of the fact that J. P. Morgan & Co. were the fiscal agents of the New Haven Railroad and its subsidiaries and that Mr. J. P. Morgan was a director and member of its executive and financial committees, coupled with the further fact that you publicly offered the records of your firm and the personal records of your father for examination to any proper tribunal, the commission requests that the accountants be allowed access to all records, books, papers, and memoranda of every kind relating to the New Haven Railroad or any of its subsidiaries or any person having dealings through J. P. Morgan & Co. as fiscal agents of the New Haven Railroad or with Mr. J. P. Morgan individually. Specifically, the commission requests that the accountants, in addition to the above, be given the following information:

"First. The names of the persons to whom 50,000 shares of stock were sold in 1910 by Morgan & Co. for the accounts of the navigation company, a subsidiary of the New Haven Railroad.

"Second. The names of the purchasers of \$19,000,000 New York, Westchester & Boston bonds, sold in 1910 by Morgan & Co. for account of the New Haven Railroad.

"Third. Under the offer made by you, and accepted by the commission, the accountants of the commission are entitled to inspect all transactions appearing upon your books that may throw light upon the present investigation of the New Haven Railroad or any of its subsidiaries, and the fact that some third person may be concerned in any particular transaction does not absolve that transaction from scrutiny by the accountants of the commission.

"Fourth. The accountants should be allowed to inspect correspondence affecting the financial transactions of the New Haven Railroad or any of its subsidiaries.

"I assure you the commission has no desire to gain information from your records other than that bearing upon the subject matter of the present investigation. Our examiners are in every way reliable and scrupulously regard the injunction laid upon them by law not to divulge anything found by them in the course of their examination.

"Very truly, yours,

"C. C. McCHORD, *Commissioner.*"

---

On June 24 the following letter was received from J. P. Morgan in answer to the above communication:

"Your letter bearing date the 18th instant did not reach my office until the 20th, apparently because of delay in posting, and did not reach me until the 22d instant on account of my absence from my office over Saturday and Sunday.

"With respect to your statement that the accountants of your commission 'instead of being allowed free access to the books and papers concerning the transactions of

the New Haven Railroad and of its subsidiaries have been denied such access and have been obliged to call for such information as they could designate,' I beg to say that, as I am informed, your accountants have been allowed free access to our books and papers bearing on the subjects you refer to, and have only been required to ask in a general way for what they desired, indicating it by time, item, or subject. This course has been followed in order that the books and papers, many of which are in storage, might be produced in a convenient and orderly way. I have not understood that the accountants made any objection to this, and it was obviously a matter of convenient procedure.

"In reference to your statement that 'when an item was shown them all other items were covered up,' I beg to say that, as I am informed, the ledger accounts with the New Haven and its subsidiaries have been exhibited fully and completely, and that nothing has been covered up except the names of third parties, to which I refer later herein. Your examiner is making an analysis of these accounts and taking full transcripts of them for the information and use of your commission. In tracing the ledger items back through the journal and cash books other items appearing on the same pages but in no way concerning the New Haven or any of its subsidiaries were, of course, covered up. The journal and cashbook entries concerning the New Haven transactions were indicated in the ledger accounts, and these entries were fully exhibited in every case where desired except where the name of a third person was mentioned, and in such cases that name only was covered.

"With respect to your statement that 'all information concerning the financial transactions of the New Haven Railroad or any of its subsidiaries with J. P. Morgan & Co. or J. P. Morgan has been refused where a third person was involved in such transactions,' I beg to say that, as I am informed, all information has been given in such transactions except only the names of the third person, which we felt we should not give. Mr. Morrow, who has been specially in charge of this matter for us, has suggested to Mr. Brown, your chief examiner, and to your counsel, Gov. Folk, that a conference might be desirable in order that a method could be determined by which your commission might obtain the information which you desire and which, so far as we personally are concerned, we are entirely willing that you should have. Without waiting for such conference we beg to suggest that it may be possible for us to secure the consent of the third parties to the extent that you may desire. In fact, we have asked such consent in the only two specific cases which you mention in your letter, and we are glad to say that the parties are entirely willing that their names be disclosed.

"Answering your specific request, therefore, we beg to say:

"First. The names of the persons to whom 50,000 shares of stock were sold in 1910 by J. P. Morgan & Co. for the accounts of the navigation company will be given your accountants.

"Second. The names of the purchasers of the New York, Westchester & Boston bonds, sold in 1911 and 1912 (instead of 1910 as stated in your letter), by J. P. Morgan & Co. for account of the New Haven Railroad will be given to your accountants.

"Third. When the name of a third party appears in any of the entries upon our books relating to our transactions with or for the New Haven Railroad, we shall endeavor to obtain consent of such third party to the giving up of his name.

"Fourth. I have not been advised of any difference between us on the question of correspondence. Your accountants have been and will be allowed to inspect any correspondence of our firm with the New Haven Railroad or any of its subsidiaries.

"We appreciate your assurance that you do not desire to gain information from our records other than that bearing upon the subject matter of the New Haven situation.

"I regret the delay in answering your letter which has been due in part to my absence and in part to my desire to secure the assent of the third parties in question to the specific transactions to which you referred.

"Very truly, yours,

"J. P. MORGAN."

You will observe that the commission requested that the accountants be allowed to inspect correspondence affecting the financial transactions of the New Haven Railroad or any of its subsidiaries. The answer to this was that "Your accountants have been and will be allowed to inspect any correspondence of our firm with the New Haven Railroad or any of its subsidiaries." The commission desires information and access to correspondence not only between Morgan & Co. or J. Pierpont Morgan, sr., and the New Haven road and its subsidiaries, but all correspondence concerning the financial transactions of the New Haven Railroad or its subsidiaries. The limitation placed upon the accountants of the commission in the letter from Mr. Morgan is not in accord with the public statement issued by Mr. Morgan in which he said: "The records of my firm and the personal records of my father are still intact. They are available and ready for production before any proper tribunal at any time." This is the offer that we accepted, and you were assigned to examine these records with the understanding set forth in the public statement referred to. The limitation as to third parties was a limitation fixed by counsel for J. P. Morgan and was not in the original statement and was not in contemplation by the commission when the examination was determined upon.

You will please advise me whether you have had and are having full access to the records of Morgan & Co. and the personal records of J. P. Morgan, and whether you are allowed to inspect all transactions appearing upon the books of Morgan & Co. or of J. P. Morgan, sr., that might throw light upon the financial transactions or the New Haven Railroad and its subsidiaries. If you have had such access, please report to the commission what you have found, and if you have been denied such access, please state how and in what way you have been so hindered in the examination to which you were assigned by the commission.

Very truly, yours,

C. C. McCHORD, *Commissioner*.

NEW YORK CITY, July 9, 1914.

Hon. C. C. McCHORD,

*Commissioner, Interstate Commerce Commission, Washington, D. C.*

DEAR SIR: Replying to your favor 6th and answering questions contained therein:

First. Full access to the records of J. P. Morgan and J. P. Morgan & Co. has not been granted to me, such items of accounts as contain the record of the transactions published in their statement addressed to the chairman of the New Haven board dated March 4, 1914, have been submitted, and all exposed data foreign to the particular transaction under review has been covered by papers, and in innumerable instances where the name of a third party was involved such information was also covered up.

Second. Whether I have been allowed to inspect all transactions on the books of J. P. Morgan & Co. relating to the New Haven or its subsidiary companies, I am unable to state.

I do not know what accounts are on their books, except the few reported in their statement previously referred to and several deposit accounts, dividend and interest accounts, which they voluntarily submitted.



In review of the correspondence, I can see such letters only as are submitted by them, whether they are all the correspondence on the subject I can not say, beyond the fact that such is their statement.

Correspondence between J. P. Morgan & Co. and third parties on the transactions referred will, as a rule, be referred to such parties and their consent obtained before submission to me for inspection. J. P. Morgan & Co. do not consider this proceeding before a proper tribunal, and it is only before such a body or court that a proper submission of data will be effected.

This procedure can not be dignified by the title of an "investigation." No successful investigation can be conducted wherein the parties under investigation specify the evidence and limitations under which it must be accepted. All that I could consistently state is that I have seen certain accounts and correspondence pertaining to such transactions, substantially confirming the profits and losses published in their statement of March 4, 1914.

Whether such records as I have seen reveal the full story of their relations with the New Haven and its related companies, I have no evidence, beyond the statement of the firm's representatives, that such is the case.

Yours, truly,

D. E. BROWN, *District Accountant.*

---

[Telegram.]

JULY 10, 1914.

DAVID E. BROWN,

*Hotel McAlpin, New York City:*

Your letter—who representing Morgan & Co.—stated that they do not consider proceeding before a proper tribunal.

C. C. McCHORD, *Commissioner.*

---

[Telegram.]

JULY 10, 1914.

C. C. McCHORD,

*Interstate Commerce Commissioner, Washington, D. C.:*

Your telegram dates statement made by Dwight W. Morrow July 7, who became a member of firm July 1, 1914.

BROWN, *District Accountant.*

---

[Telegram.]

JULY 11, 1914.

DAVID E. BROWN,

*District Accountant, Hotel McAlpin, New York City:*

In view of the statements made in your report of July 9 and your wire of July 10, the commission is of opinion that it is useless for you to continue the investigation referred to. You will therefore return to Washington.

C. C. McCHORD, *Commissioner.*

